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1ST JANUARY, 1952

CABINET

TRADE WITH EASTERN EUROPE

Note by the Deputy Secretary of the Cabinet

The Prime Minister has directed that the Cabinet should consider the report by the Mutual Aid Committee on trade with Eastern Europe and the implications of the Mutual Defence Assistance Control Act (Battle Act). Copies of the Committee's report and of a covering minute to the Minister of Defence are circulated herewith.

Cabinet Office, S.W.1,  
1ST JANUARY, 1952.

(Signed) T. PADMORE

MINUTE OF 27TH DECEMBER, 1951, TO THE MINISTER OF DEFENCE  
FROM THE DEPUTY SECRETARY, MINISTRY OF DEFENCE

Under a new United States law, known as the Battle Act, the grant of United States military or economic aid is made conditional on the receiving country restricting its trade with the Soviet Bloc to the extent required by the United States on security grounds.

We already operate extensive security controls on trade with Soviet countries, aimed at stopping the build-up of their war potential. Other Western European nations do the same. The scope of the controls and methods of operating them are co-ordinated by an unofficial Security Controls Committee in Paris on which all N.A.T.O. countries and Western Germany are represented. Some goods are denied to Soviet countries; others are allowed to go in limited quantities.

The controls proposed by the United States under the Battle Act are somewhat more comprehensive than those at present in force, but the most objectionable feature of the United States proposals is that they leave it entirely to Washington to decide whether particular goods shall be denied or in what quantity they shall be exported.

The matter has been considered by the Mutual Aid Committee, who have prepared the attached submission to Ministers which has the object of -

- (a) confirming that the present policy on security controls is endorsed by the Government; and
- (b) authorising efforts at official level to obtain a modification of the American proposals in co-operation with Western European countries.

**SECRET**

## UNITED KINGDOM POLICY ON TRADE WITH EASTERN EUROPE AND IMPLICATIONS OF THE UNITED STATES BATTLE ACT (MUTUAL DEFENCE ASSISTANCE CONTROL ACT)

1. Trade with Eastern Europe is of great importance to the economic life and therefore to the defensive strength of the United Kingdom in particular, and also of other Western European countries. We must export to Eastern Europe in order to secure essential supplies which, even if they were obtainable at all from other sources, could only be secured by payment of dollars which we cannot afford. There is, however, the danger that our exports to Soviet countries may assist them in building up their war potential. For this reason we have, in recent years, in common with other N.A.T.O. Powers and Western Germany, operated a system of security export controls designed to prohibit the export to the Soviet Bloc all items with significant strategic value and to put a limit on exports of less strategic items. A more detailed note at Appendix A gives the reasons why we must maintain the maximum amount of trade consistent with security and explains how the Security Export Controls operate. Appendix B shows the internationally agreed criteria for selecting the goods to be included on the prohibited or restricted lists.

China is subject to the same general rules but is treated more severely. Ministers have already approved the policy in regard to China (E.A. (51) 9).

2. The United States, who have little or no need to rely on imports from Soviet countries, operate a wider range of restrictions on exports than any of the other N.A.T.O. countries except, possibly, Canada, and there has been continued United States pressure on ourselves and Western Europe to extend the scope of the international security controls. Hitherto they have done this by negotiation, through the medium of the International Co-ordinating Group on Security Export Controls in Paris, but Congress have now passed new legislation—the Battle Act—which provides for more stringent export controls as a condition of United States military or economic aid. We and the French lodged a formal protest against the Battle Act even before it was passed because it was inconsistent with the principle of co-operation on which the common defence effort has been built up.

3. The Battle Act classifies, in three categories, the goods which the United States authorities consider to have strategic importance. In the case of the first category (goods listed as arms, ammunition and implements of war, including atomic energy items) the prohibition of exports is absolute; there is no discretion to permit exceptions. Exports of goods in the second category (items useful in the production of arms) may be permitted without incurring forfeiture of aid where the President approves. The United States Government have promised to consult the Co-ordinating Committee of the Paris Group about such exceptions, but they will not necessarily accept its advice. In the third category are items (of which the most important to us are rubber and tin) for which United States approval of export quotas is required.

4. The Security Export Controls' Working Party have compared the lists drawn up under the Battle Act with the lists of items at present embargoed or restricted under the system of controls agreed internationally by the Paris Group. Over a wide field the two sets of lists are in line but there are some significant differences; the Battle Act Lists contain a number of items which were differently classified by the Paris Group. These are set out in Appendix C. The United Kingdom is required to state by 24th January, 1952, what steps it is taking to prohibit exports of those goods for which the Battle Act prescribes embargo.

5. It is important to note that the lists of goods to be embargoed or restricted are not included in the Battle Act itself. They have been drawn up by the American Administration as representing their interpretation of the definitions of strategic goods covered by the Act. Further, complete lists have not yet been published in the United States, although abridged lists, giving general headings, have been made public. If, therefore, the United States Administration could be induced to modify their lists and/or their proposed procedures, to comply with the

internationally agreed formula (Appendix B), it would be possible to comply with the terms of the Act without any significant extension of our own controls.

6. There are strong reasons why an effort should be made to secure modifications of the United States lists or procedures. The present international formula (Appendix B) was accepted by the United States in common with the other Western countries, as correctly describing the appropriate scope of security controls. The additional items under the Battle Act do not comply with these criteria; they are all dual purpose goods, admittedly having a greater or lesser strategic value but essential to the normal peacetime life and industrial activity of a modern State; the complete embargo of them would be tantamount to a limited form of economic warfare. It would interfere further with our trade with Eastern Europe and might, through reduction of essential imports, result on balance in damage to our own economic and defensive strength. Moreover, such a departure from the principles agreed by the Paris Group would tend to undermine that organisation and to destroy the principle of international co-operation on security controls. There is the further objection that the United States Government may add to the lists or reclassify items on them and, having once yielded on principle, we should hardly be able to resist any piecemeal encroachments which might be dictated by changes of United States policy or political pressure.

7. Apart from the difficulties caused by the United States extension of the scope of the controls a serious problem is likely to arise under the Battle Act in fixing the permitted quantities of those exports which are restricted but not prohibited. Under the Paris Group machinery export limits for each item are agreed in negotiation, but the final decision in a particular case rests with the exporting country. Under the proposed United States procedure, if strictly applied, the final decision as to the limits of exports of each commodity would rest with Washington and any excess exports would involve cessation of aid. This would be particularly serious to the United Kingdom when applied to materials such as rubber and tin, the exports of which are vitally important to our economic well-being. We already limit exports of rubber to the Soviet *Bloc* but it is essential that we, and not the United States, should have final responsibility for deciding to what extent we can afford to limit such crucial exports without damage to our economic strength.

#### *Conclusions*

8. In these circumstances we suggest that the United Kingdom attitude to the United States proposals under the Battle Act should be as follows:—

- (1) We should adhere to the principles agreed by the Paris Group and encourage the other member countries to do likewise;
- (2) Whilst continuing to point out that this Act is inconsistent with the N.A.T.O. partnership concept, we should endeavour to secure the agreement of the United States Government to administering the Act in a manner consistent with the Paris Group's principles and procedures.

If the above line succeeds no further report to Ministers will be required. If it fails we shall be faced with a dilemma: either we shall have to sacrifice our principles and an important part of our trade or we shall have to face the prospect of losing our United States aid.

9. It is considered that as a first step we should consult the other nations which are members of the Paris Group; as a second step we should have a full meeting of the Group, including the Americans, in time to reach agreed views before the 24th January, *i.e.*, the operative date of the Battle Act. The French, Norwegians and Dutch have already consulted us and are in general agreement with this suggestion.

#### *Recommendations*

10. It is recommended that Ministers be invited—
- (1) to endorse the existing general policy on trade with Eastern Europe set out in Appendix A of this paper;
- (2) to authorise the action set out in paragraphs 8 and 9 above.

27th December, 1951



## APPENDIX A

## TRADE WITH EASTERN EUROPE AND CHINA

*General*

1. After the war the Western Allies hoped that the normal pattern of Western Europe's trade with Eastern Europe could gradually be restored, but from 1947 onwards Soviet policy forced on the West measures of control of strategic goods in order to limit the growth of their war potential. Controls had later to be applied to trade with China as a result of events in Korea. In framing the controls we recognised that even a complete stoppage of trade would not destroy the power of the Communists to wage war. It would, however, mean economic warfare and would aggravate international tension. Moreover, it would do serious damage to the economies of Western Europe. In considering what controls to apply there is a natural divergence of approach between the United States and other Western countries. The United States does not need to trade with Communist countries, but Western Europe must if it is to become viable.

*United Kingdom Trade*

2. Most of our imports (roughly two-thirds) from the Soviet countries in Europe consist of essential raw materials. In 1950 we got from them about one-fifth of our imports of softwood, one-third of our imports of coarse grain and one-tenth of our total bacon ration. The only other possible source is North America; but this is doubtful, and in any case we have not got the dollars.

3. Security controls and the increased demands of rearmament have caused a sharp decline in our exports and a sharper decline in the amount of new orders from Soviet countries. This is inevitable for security reasons, but as a matter of economics we should do all we can to maintain our exports, both to pay for essential imports and to keep a foothold in this potentially huge market. Any further restrictions on United Kingdom exports would imperil our essential supplies.

4. In the present situation we have to rely to an increasing extent on exports of raw materials from the Sterling Area to pay for our imports, but even so the Sterling Area is now heavily in deficit with Eastern Europe. The principal items are rubber from Malaya and wool from Australia and New Zealand. Exports of rubber to Russia are worth about £25-30 million a year as against £40 million for our imports of grain and timber. We are limiting Russia's imports of Malayan rubber to the 1950 level of 80,000 tons a year, which we consider about represents her present consumption. Actual shipments in 1951 will be some 70,000 tons, from Malaya and probably about 10,000 tons from other sources. This compares with 100,000 tons in 1948 and 105,000 tons in 1949, out of which she is believed (consumption then having been lower) to have set aside enough for a substantial stockpile. Limits have also been applied to the satellites in Europe. No rubber is now exported to China from the United Kingdom or Colonies. The Russians insisted on having a clause in the recent timber and grain contracts with the United Kingdom entitling them to cease or decrease deliveries if they were not able to spend the sterling proceeds on rubber. Any serious cut in our rubber exports would almost certainly be followed by Russian counter-measures and might in the long term also have serious consequences for Malayan producers.

5. Apart from these commercial considerations, any drastic change in the pattern of trade might well mean forfeiting the substantial debt repayments which the United Kingdom are getting from some Communist countries.

*Commonwealth Trade*

6. The other independent Commonwealth countries do not rely on Communist countries for vital imports. The Soviet bloc is, however, an important buyer of wool from Australia and New Zealand and of cotton and jute from Pakistan.

7. Any proposal to stop this trade would create difficulties for these countries and it is doubtful whether they would co-operate. In addition India and Pakistan are opposed, on the ground of their non-alignment policy, to the restriction of trade with Communist countries, while Ceylon has so far declined to prohibit the export of rubber to China though so far only one shipment has gone. Ceylon does not export rubber to Russia.

8. Apart from rubber mentioned above, the only substantial trade between the Colonies and the Soviet countries is that between Hong Kong and China. The greater part of the free world's trade with China passes through the Colony and Hong Kong depends in a large measure for its commercial existence on this trade and, for its subsistence, on certain food supplies from that country. Malaya has a minor trade with China.

### *Security Controls*

9. The export of arms, ammunition and atomic energy materials to Communist countries in Eastern Europe is prohibited by the Western Allies; also nearly 300 other items of primary strategic importance.

10. Since she came under Communist domination similar controls were applied against Communist China; these have been intensified since the Chinese intervention in Korea. There is an embargo on a very wide range of exports from the United Kingdom and Colonies, including Hong Kong, and export control over all United Kingdom exports to China.

11. The controls are co-ordinated through an informal organisation known as the Paris Group (*i.e.*, N.A.T.O. Powers plus Western Germany). The Colonies operate virtually the same controls as the United Kingdom. The independent Commonwealth countries are kept informed and in general follow the same policy, except the three Asian members, though in practice they do not normally export strategic goods to Communist countries. Sweden and Switzerland co-operate but do not wish to be identified with the Group.

### *Current Problems*

12. There has been continual United States Congressional pressure to increase restrictions and extend strategic controls into what we regard as the domain of economic warfare. Under the so-called Battle Act, recently signed, the United States Administration have power to cut off all military and economic assistance to countries whose strategic export control policies do not conform to their requirements. Although the Act allows the President a measure of discretion and is to be administered by Mr. A. Harriman, who is well aware of the importance to Western Europe of trade with the Soviet *bloc*, it does provide the United States with a powerful instrument of coercion and there is likely to be strong Congressional pressure on the Administration to use it as such.

13. Because of the difference between our respective controls, the United States tend to investigate our trade with the Soviet *bloc* in particular goods before supplying similar items to us, even when these are for our defence programme. Moreover, the United States reduce our dollar earnings by restricting their own imports of goods, *e.g.*, furs from the Soviet *bloc* and China via the United Kingdom or Colonies. Because of Hong Kong's close ties with China, the United States action in this field has been particularly severe against the Colony.

14. Another question likely to arise shortly is possible United Nations action to impose additional sanctions against China if full-scale fighting is resumed in Korea. The United States has already asked us to consider imposing more severe measures in those circumstances. Recommendations will shortly be made to the Economic Policy Committee.

### *Talking Points*

15. The United Kingdom can take credit for much of the initiative in evolving the present system of controls, and in forming the co-ordinating organisation in Paris. We have gone further than most of the European members of the Group by introducing control over the transshipment of the more important strategic goods in United Kingdom ports. The list of goods we embargo covers 95 per cent. of those on the United States list of articles of "primary strategic importance." Economically no nation has more at stake than the United Kingdom, both in Europe and the Far East, but our performance has exceeded that of our European fellow members.

### *Conclusion*

16. Within the limits imposed by security controls it is in our interest to continue to trade with the Communists. We are already restricting exports of

strategic goods as far as we can. To go further would damage our own economic and defensive strength through loss of essential supplies and incur the risks involved in full economic warfare.

## APPENDIX B

### EXTRACT FROM LONDON TRIPARTITE TALKS (1950)

#### *Criteria for the Three Categories of Control*

In selecting additional items for inclusion in the three categories, experts should be guided by the following criteria: —

#### (i) *Items for Embargo (List I)*

- (a) Items which are designed or used principally for the production and/or development of arms, ammunition and implements of war.
- (b) Items which would contribute significantly to the war potential of the Soviet *Bloc* where the items incorporate advanced technology or unique technological know-how. This applies only to goods sufficiently important to the war potential of the Soviet *Bloc* that the absence of an embargo would permit a significant advance in Soviet *Bloc* technology over its present level of development.
- (c) Items which would contribute significantly to the war potential of the Soviet *Bloc* in that the items, if embargoed, would maintain or create a critical deficiency in the war potential of the Soviet *Bloc*.

#### (ii) *Items for Quantitative Control (List II)*

Items which are highly important from the point of view of their contribution to the war potential of the Soviet *Bloc* and of which the high strategic character is directly related to the quantitative extent to which they may be exported to the Soviet *Bloc*.

#### (iii) *Items for Exchange of Information*

Items of potential strategic significance for which information presently available on the Soviet *Bloc* needs is insufficient to establish clearly the necessity for control on types indicated.

The words "war potential" used in the above criteria should be interpreted as meaning the following. War potential is to be viewed from both the short term and the long term aspects. It includes (a) items of direct military application. It may also include, amongst others, selected items which represent (b) sectors of industry in which strategic and industrial interests are very closely mingled and where the items concerned can easily and quickly be turned over from peaceful uses to the manufacture of war equipment or other direct military application; and (c) other industrial fields which serve to support the basic economy of a country and which therefore support either a peace-time or a war-time economy.

As a general guide it will probably be found that (a) and (b) in the previous paragraph apply to items for embargo, that (b) and (c) apply to items for quantitative control, and that (c) applies to items for exchange of information.

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## APPENDIX C

### RESTRICTED ITEMS UNDER THE BATTLE ACT

1. Title I, Category A of the Battle Act (Mutual Defence Assistance Control Act) consists entirely of munitions and atomic energy items. From a preliminary examination we are reasonably satisfied that we are not, in fact, exporting any goods on this list to the Soviet *Bloc* or China; but some of the headings are so wide and so loosely phrased that it is not possible to guarantee complete coverage. This problem should, however, be capable of being settled in discussion with the United States authorities.

2. Title I, Category B of the Act (the Primary or Embargo List) contains eight items which are neither on International List I nor controlled by the United Kingdom as munitions or atomic energy items.



(a) The following items have been rejected for embargo by the Paris Group:—

Aluminium (primary and some secondary forms).  
 General service locomotives.  
 Heavy rails.  
 Block signalling systems.  
 Chlorofluoromethanes.  
 Rare earth metals and their compounds, mixtures and products (with certain exclusions).

All these except the last are on International List II; the first 4 were on the United States List 1A. The reason now advanced by the Americans for controlling the last two items is that they have important atomic energy uses.

(b) The following items are not controlled but the practicability of controlling them on atomic energy grounds is currently under discussion:—

Electrolytic cells for the production of fluorine.  
 Fluorimeters of certain kinds.

(c) In the following cases the definitions of the items given in Title I, Category B are wider than the corresponding definitions hitherto adopted for purposes of United Kingdom controls.

Centrifuges of certain types.  
 Turbo-blowers of certain types.  
 Refractory materials of certain types.  
 Photo-multiplier tubes and specialised parts therefor and any electron multiplier unit activated by positive ions.  
 Radiation detection instruments of certain types and components thereof.

(d) The definitions of some munitions items in Title I, Category B are wider than the corresponding definitions adopted for the purpose of United Kingdom controls.

3. The secondary or quantitative control list (Title II) contains five items and part of a sixth which are on International List III and two items which the Paris Group has refused to accept at all.

These are:—

Road and airport machinery.	}	List III.
Railway freight cars.		
Components for freight cars.		
Tin.		
Natural rubber.		
Small types of excavators.		
Coal cutters.		
Combination coal cutting and loading devices.		Not listed.

All these items except natural rubber are taken from the United States List 1A.

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3rd January, 1952

**CABINET**  
—**NORTH ATLANTIC COUNCIL: MEETING IN ROME,  
24th-28th NOVEMBER****MEMORANDUM BY SECRETARY OF STATE FOR FOREIGN AFFAIRS**

Together with the Chancellor of the Exchequer and the Secretary of State for Air, I attended the recent meeting of the North Atlantic Council in Rome. After consultation with them, I circulate the following note for the information of the Cabinet.

2. The Rome meeting of the Council was not expected to take any major decisions and did not do so. It was essentially a stock-taking intermediate meeting.

3. The two main problems of N.A.T.O. at present are first, how to relate the economic possibilities of N.A.T.O. countries to N.A.T.O. military requirements and, secondly, how to obtain a German military contribution to Western defence within a reasonable time. The first of these problems is in the hands of Mr. Harriman's Temporary Council Committee in Paris and the second in those of the Paris Conference on the European Defence Community. Neither of these bodies was ready to submit a final report to the Council, which accordingly could do no more than have a very general inconclusive discussion on both topics.

**Economics of Defence**

4. The Council received reports from the N.A.T.O. military authorities showing first the magnitude of the Soviet threat; secondly, the present state of N.A.T.O. forces; and, thirdly, the increase in those forces necessary to meet the threat. These reports were explained orally by General Gruenther, General Eisenhower's Chief of Staff, who presented forcibly the military case for increased forces and the need for a German contribution if Western Europe was to be made defensible. The Council then heard a report from Mr. Harriman on the work of the Temporary Council Committee, in which he did no more than indicate in general terms the sort of recommendations it might make. Finally, the Council was addressed by General Eisenhower, whose speech was more political than military. He repeated his plea for European unity and his belief in the need for a European Army with German participation. At M. Lange's suggestion, it was agreed that as much as possible of the information which had been laid before Ministers should also be made available to national Parliaments.

5. There was not much discussion on this subject. The upshot of the meeting was to bring the Council face to face with N.A.T.O.'s military requirements and to make clear what forces were immediately available to meet those requirements and what additional forces were needed to fill the gap. The Council was given a warning that at its next meeting it will have to decide how far these requirements can be reconciled with the economic and political possibilities of the individual N.A.T.O. countries.



### German Questions

6. The Council heard reports from Mr. Acheson on the progress of the political discussions between the occupying Powers and the German Federal Government, and from M. Schuman on the work of the Paris Conference on the European Defence Community. There was no discussion in the Council on the first of these questions, on which Mr. Acheson, M. Schuman and I had reached provisional agreement at our meeting in Paris with Dr. Adenauer. This was on lines foreseen in my memorandum C. (51) 24 of 20th November and marks only an interim stage in negotiations which are still proceeding in Germany. On the second question the emphasis at Rome was on the need for speed in concluding the work of the Paris Conference. The Americans were impatient of further delay and insisted that in view of the urgent military need for a German contribution, the Conference must present a definitive report with concrete proposals to the next meeting of the Council. The French were reluctant to be thus hustled. The Benelux countries, for their part, were clearly frightened of what they were letting themselves in for in joining a European Army and made an ineffective attempt to get the Council to endorse an appeal to other N.A.T.O. countries (*i.e.*, the two Scandinavian Powers and ourselves) to join, too. The general feeling was that this question could not be allowed to drag on indefinitely and that a decision one way or the other must be taken by the Council at its next meeting. The Council accordingly passed a resolution expressing the hope that it would receive a definitive report from the European Army Conference at Lisbon in February. Meanwhile the Military Committee have directed the Standing Group to call for a report from S.H.A.P.E. on the military effectiveness of the proposals so far made by the European Army Conference.

7. Besides these two major issues, the Council discussed a number of military questions, submitted by the Military Committee, which had met before the Council, and also a report by a special committee set up to consider the development of the non-defence aspects of N.A.T.O.

### Military Questions

8. Military questions were referred initially by the Council to a Committee of Defence Ministers and some useful work was done in this smaller gathering. The Defence Ministers' recommendations were subsequently accepted by the Council.

9. On the question of a Supreme Commander, Atlantic (S.A.C.L.A.N.T.), the Secretary of State for Air made it clear that the United Kingdom must reserve its position. Mr. Lovett, the American Secretary of Defence, and his Canadian and Norwegian colleagues were evidently reflecting the views of all the other N.A.T.O. countries when they expressed the hope that the United Kingdom might be able to accept a Supreme Commander, Atlantic, and to join in setting up this Command before the next meeting of the Council.

10. The proposals for a N.A.T.O. Command in the Channel and Southern North Sea and the appointment of Admiral Sir Arthur Power as Allied Commander-in-Chief, Channel and Southern North Sea, were approved; but no decision has yet been taken to announce them.

11. The Defence Ministers, and subsequently the Council, took note of Progress Reports on "Command Arrangements in the Mediterranean and the Middle East" and "Standardisation of Small Arms and Small Arms Ammunition." Neither of these subjects was ripe for consideration by the Council and it was satisfactory, from our point of view, that no significant discussion took place on either of them. Privately the Canadian Minister of National Defence pressed for an early decision on small arms as Canada is intimately affected on the supply side.

### Non-defence Aspects of N.A.T.O.

12. Mr. Pearson, the Canadian Foreign Minister, presented an interim report from the Council Committee on the non-defence aspects of N.A.T.O., of which he is Chairman. The report outlined various questions which the Committee had been studying, such as the movement of labour from one N.A.T.O. country to another (to which the Italians attached particular importance), the development of N.A.T.O. co-operation in the social and cultural fields, &c., and asked permission



for the Committee to continue its work. The Council approved the report without much discussion and we may expect some concrete recommendations from the Committee at the Council's next meeting.

### **Organisation of N.A.T.O.**

13. Another matter which was only briefly discussed in the Council but was much canvassed in the corridors, was the need for some reorganisation of the present N.A.T.O. machinery. The Council meeting itself was an unwieldy affair with thirty-six Ministers round the table and two or three hundred advisers ranged behind them. The atmosphere was that of a public meeting more than of a conference, and many Ministers were obviously inhibited from speaking their minds in such a vast gathering. No practical proposals were put forward, but it was generally understood that this was a matter which would have to be examined in the interval before the next meeting of the Council.

### **Upshot of the Meeting**

14. We did not expect the meeting to achieve results and it did not do so. On the other hand, it was valuable for the Chancellor of the Exchequer, the Secretary of State for Air and myself to meet our N.A.T.O. colleagues, and we were able to have some useful discussions on the side with the Americans and the French on such matters as Korea, the Middle East and South-East Asia.

15. I was also able to reach agreement with Mr. Acheson and M. Schuman on instructions to be given to the Allied High Commission in Germany regarding the basis on which they should begin negotiations with the Federal Government on the financial aspects of the German defence contribution. These instructions took full account of the inability of the United Kingdom to accept any additional financial burden in connexion with the support of our forces in Germany, on which I made our position clear in accordance with the decision of the Cabinet (CC (51) 8th Conclusion, Minute 2).

16. It was the Americans who insisted on having this intermediate meeting, and they turned up in force with a contingent over two hundred strong, led by Mr. Acheson, Mr. Lovett and Mr. Snyder. They did not seem unduly disappointed at the absence of results. We can therefore hope that as a result of their personal contacts they will, on their return to Washington, be able to assure Congress that all is well with N.A.T.O. If the meeting achieved that much, it was not in vain.

A. E.

*Foreign Office, S.W. 1,  
3rd January, 1952.*

## German Questions

6. The Council heard reports from Mr. Acheson on the progress of the political discussions between the occupying Powers and the German Federal Government, and from M. Schuman on the work of the Paris Conference on the European Defence Community. There was no discussion in the Council on the first of these questions, on which Mr. Acheson, M. Schuman and I had reached provisional agreement at our meeting in Paris with Dr. Adenauer. This was on lines foreseen in my memorandum C. (51) 24 of 20th November and marks only an interim stage in negotiations which are still proceeding in Germany. On the second question the emphasis at Rome was on the need for speed in concluding the work of the Paris Conference. The Americans were impatient of further delay and insisted that in view of the urgent military need for a German contribution, the Conference must present a definitive report with concrete proposals to the next meeting of the Council. The French were reluctant to be thus hustled. The Benelux countries, for their part, were clearly frightened of what they were letting themselves in for in joining a European Army and made an ineffective attempt to get the Council to endorse an appeal to other N.A.T.O. countries (*i.e.*, the two Scandinavian Powers and ourselves) to join, too. The general feeling was that this question could not be allowed to drag on indefinitely and that a decision one way or the other must be taken by the Council at its next meeting. The Council accordingly passed a resolution expressing the hope that it would receive a definitive report from the European Army Conference at Lisbon in February. Meanwhile the Military Committee have directed the Standing Group to call for a report from S.H.A.P.E. on the military effectiveness of the proposals so far made by the European Army Conference.

7. Besides these two major issues, the Council discussed a number of military questions, submitted by the Military Committee, which had met before the Council, and also a report by a special committee set up to consider the development of the non-defence aspects of N.A.T.O.

## Military Questions

8. Military questions were referred initially by the Council to a Committee of Defence Ministers and some useful work was done in this smaller gathering. The Defence Ministers' recommendations were subsequently accepted by the Council.

9. On the question of a Supreme Commander, Atlantic (S.A.C.L.A.N.T.), the Secretary of State for Air made it clear that the United Kingdom must reserve its position. Mr. Lovett, the American Secretary of Defence, and his Canadian and Norwegian colleagues were evidently reflecting the views of all the other N.A.T.O. countries when they expressed the hope that the United Kingdom might be able to accept a Supreme Commander, Atlantic, and to join in setting up this Command before the next meeting of the Council.

10. The proposals for a N.A.T.O. Command in the Channel and Southern North Sea and the appointment of Admiral Sir Arthur Power as Allied Commander-in-Chief, Channel and Southern North Sea, were approved; but no decision has yet been taken to announce them.

11. The Defence Ministers, and subsequently the Council, took note of Progress Reports on "Command Arrangements in the Mediterranean and the Middle East" and "Standardisation of Small Arms and Small Arms Ammunition." Neither of these subjects was ripe for consideration by the Council and it was satisfactory, from our point of view, that no significant discussion took place on either of them. Privately the Canadian Minister of National Defence pressed for an early decision on small arms as Canada is intimately affected on the supply side.

## Non-defence Aspects of N.A.T.O.

12. Mr. Pearson, the Canadian Foreign Minister, presented an interim report from the Council Committee on the non-defence aspects of N.A.T.O., of which he is Chairman. The report outlined various questions which the Committee had been studying, such as the movement of labour from one N.A.T.O. country to another (to which the Italians attached particular importance), the development of N.A.T.O. co-operation in the social and cultural fields, &c., and asked permission



for the Committee to continue its work. The Council approved the report without much discussion and we may expect some concrete recommendations from the Committee at the Council's next meeting.

### **Organisation of N.A.T.O.**

13. Another matter which was only briefly discussed in the Council but was much canvassed in the corridors, was the need for some reorganisation of the present N.A.T.O. machinery. The Council meeting itself was an unwieldy affair with thirty-six Ministers round the table and two or three hundred advisers ranged behind them. The atmosphere was that of a public meeting more than of a conference, and many Ministers were obviously inhibited from speaking their minds in such a vast gathering. No practical proposals were put forward, but it was generally understood that this was a matter which would have to be examined in the interval before the next meeting of the Council.

### **Upshot of the Meeting**

14. We did not expect the meeting to achieve results and it did not do so. On the other hand, it was valuable for the Chancellor of the Exchequer, the Secretary of State for Air and myself to meet our N.A.T.O. colleagues, and we were able to have some useful discussions on the side with the Americans and the French on such matters as Korea, the Middle East and South-East Asia.

15. I was also able to reach agreement with Mr. Acheson and M. Schuman on instructions to be given to the Allied High Commission in Germany regarding the basis on which they should begin negotiations with the Federal Government on the financial aspects of the German defence contribution. These instructions took full account of the inability of the United Kingdom to accept any additional financial burden in connexion with the support of our forces in Germany, on which I made our position clear in accordance with the decision of the Cabinet (CC (51) 8th Conclusion, Minute 2).

16. It was the Americans who insisted on having this intermediate meeting, and they turned up in force with a contingent over two hundred strong, led by Mr. Acheson, Mr. Lovett and Mr. Snyder. They did not seem unduly disappointed at the absence of results. We can therefore hope that as a result of their personal contacts they will, on their return to Washington, be able to assure Congress that all is well with N.A.T.O. If the meeting achieved that much, it was not in vain.

A. E.

*Foreign Office, S.W. 1,  
3rd January, 1952.*

129/49

(THIS DOCUMENT IS THE PROPERTY OF HIS BRITANNIC MAJESTY'S GOVERNMENT)

SECRETC.(52) 3COPY NO. 675TH JANUARY, 1952CABINETCOMMONWEALTH FINANCE MINISTERS MEETINGMemorandum by the Chancellor of the Exchequer

My colleagues may like to have a brief note on the forthcoming Meeting of Commonwealth Finance Ministers in London. The conference, which will be preceded by a meeting of officials, opens on Tuesday, 15th January. The United Kingdom Delegation will consist of myself, the Secretary of State for the Colonies, the President of the Board of Trade, the Chancellor of the Duchy of Lancaster, the Minister of State for Economic Affairs, and the Parliamentary Secretary, Commonwealth Relations Office. We shall be accompanied by the Minister of Finance for Northern Ireland. With the probable exception of Sir C. Deshmukh (India) all the Finance Ministers of the Commonwealth will be attending, including Mr. Holland, Prime Minister of New Zealand, who is also his country's Minister of Finance. In addition, a number of representatives of Colonial Governments are coming to London to act as advisers to the Colonial Secretary.

2. The task of the Conference will be to stop the drain on the central gold reserves of the sterling area and to establish a concerted policy to restore the position of sterling and make the sterling area viable. If the reserves run out the sterling area will dissolve into chaos. They have never been really adequate since the war and have dwindled at a most alarming rate in the last six months. We estimate that the sterling area is at present in deficit with the rest of the world at an annual rate of about £1,600 millions, a deficit which has led to the loss of nearly 40% of the gold reserves since June and a change in our European Payments Union (E.P.U.) position from an accumulated credit of over £100 millions at the end of June, 1951, to a debt of nearly £200 millions at the end of December.

3. Against this background we intend to go into the discussions with the following objectives:-

- (a) To convince the other members that the sterling area is a great advantage to them and that the United Kingdom is able and determined to play its full part as the centre of the area.
- (b) To secure from each of the other members an undertaking that they will play their part by taking internal and external measures to right their economies, and so prevent them from being a drain upon the gold reserves and upon United Kingdom resources.
- (c) To set on foot plans for closer co-operation to strengthen sterling, and to secure more effective relations between the United Kingdom and the sterling Commonwealth on the one hand, and Canada on the other.



- (d) To get a communiqué which will strengthen confidence in sterling and express hope for and confidence in the future.

4. None of these objectives will be easy to attain. If, for instance, the United Kingdom is going to make good the objective proposed in (a), we must convert a deficit of £570 millions on our overall balance of payments in 1951 into a surplus in 1952 (taking United States aid into account). I need not enlarge on the unpleasant decisions which we are having to take in order to do so but if we fail the reserves will disappear and with them the sterling area and our ability to buy the food and raw materials on which we depend.

5. It is our intention, having pointed out the dangers which face the sterling area, to suggest that the conference tackles its task under three main headings:-

(i) The prevention of internal inflation

The strength of sterling depends in the last resort upon the internal policies of each individual country in the sterling area. The internal policies of the United Kingdom are the most important. I intend to explain to my Commonwealth colleagues very fully and frankly the measures which we are taking. But the sterling area cannot afford inflation anywhere within it. We must do our best to secure from each Finance Minister a frank exposition of the steps which his own Government are taking to combat inflation so that we may have the opportunity to assess the extent to which the sum total of these measures will achieve our objective. This will not be easy because, hitherto, the independent countries of the Commonwealth have been acutely suspicious of anything that savoured of intervention in their domestic policies. But the time is past when we can allow any Commonwealth country to destroy the sterling area by its domestic policies. It is partly in order to set a good example that I and the Secretary of State for the Colonies intend to give a full description of the action we are taking at home and in the Colonial Empire.

(ii) Action to right the balance of payments

This is not merely a dollar crisis because the sterling area is so heavily in deficit with the rest of the world that, broadly speaking, a deficit with any foreign country costs us gold or dollars. We intend, therefore, to lay before the conference the proposition that all countries within the sterling area must wipe out the deficits of their overall balance of payments and that this should be done as far as possible by reducing their expenditure outside the sterling area. Thus the area as a whole will achieve at least a balance, and if possible a surplus, with the non-sterling world.

(iii) Longer term constructive policy

The whole future of the sterling area depends on stopping the drain on the central reserves as quickly as possible. But this in itself will not enable us to face the future with any real confidence, unless we can agree on a longer term policy designed to secure the viability of the sterling area and enable us to remove the discriminatory practices which are the subject of

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such criticism from the United States and Canada.  
Mr. Abbott, the Canadian Finance Minister, is certain to make  
this point at the conference.

It is unlikely that we will be able to go very deeply into  
longer term policy in the time available to us, but we intend to  
suggest some heads for discussion, such as the expansion of  
the sterling area's earning power, particularly in North America,  
and measures to stimulate a substantial flow of desirable North  
American investment within the area. We can hope to follow up  
these questions after the conference.

Finally, it is most essential that at the conclusion of the conference we  
should be able to issue an effective and hopeful communiqué which will  
make a real contribution to the restoration of confidence in sterling.

6. The achievement of these objectives will involve a substantial  
measure of hardship all round and it can only be done if each Government  
in the sterling Commonwealth is prepared to accept the overriding  
necessity of achieving the viability of the sterling area, however  
unpleasant may be the internal political consequences. Fortunately the  
sterling area system is of the greatest possible benefit to all its larger  
members and we can legitimately assume that all of them will be prepared  
to accept a substantial measure of sacrifice to ensure its survival. It  
will not be difficult to prove to them that the reserves are now too small  
to allow us to survive another crisis as severe as the present one or its  
predecessors in 1947 and 1949; and it will be our task to ensure that the  
measures taken are adequate to prevent such a recurrence.

7. The United Kingdom Delegation are not despondent about our  
chances of securing a substantial measure of success in the forthcoming  
conference, and I hope that at its conclusion we will be able to produce a  
satisfactory report to our colleagues.

R.A.B.

Treasury Chambers, S.W.1,

5TH JANUARY, 1952.



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S E C R E T

C.(52) 4

COPY NO. 73

11TH JANUARY, 1952

CABINET

SERVICE ESTIMATES, 1952/53

Note by the Chancellor of the Exchequer

Attached is a memorandum by the Chancellor of the  
Duchy of Lancaster on the Service Estimates for 1952/53.  
I commend his proposals to the Cabinet for their approval.

R.A.B.

Treasury Chambers, S.W.1.,

11TH JANUARY, 1952.

Printed for the Cabinet. January 1952

SECRET

Copy No. 73

11th January, 1952

**CABINET**

**SERVICES ESTIMATES 1952-53**

MEMORANDUM BY THE CHANCELLOR OF THE DUCHY OF LANCASTER

**I.—Departmental Proposals**

During November and December 1951 proposals for defence expenditure in the three years 1952-55 were worked out by the Service Departments, the Ministry of Defence and the Ministry of Supply on the basis of completing by March 1954 that part of the £4,700 million defence programme which it was still possible to carry out within that period together with certain additional requirements for that programme and some of the further measures necessary to enable us to meet our full share of the requirements of the Medium-Term Defence Plan of the North Atlantic Treaty Organisation.

2. The resulting financial proposals for the Service Departments for the financial year 1952-53 were as follows:—

						£ million
Admiralty	...	...	...	...	...	402
War Office	...	...	...	...	...	611
Air Ministry	...	...	...	...	...	534
						<u>1,547</u>

In addition provision of £120 million was proposed for the defence expenditure of the Ministry of Supply and for the Ministry of Defence.

3. The United Kingdom man-power requirements of the forces were:—

						1st April, 1952	1st April, 1953
Navy	...	...	...	...	...	147,700	146,400
Army	...	...	...	...	...	449,100	474,500
R.A.F.	...	...	...	...	...	270,000	306,000
						<u>866,800</u>	<u>926,900</u>

**II.—The Prime Minister's Note**

4. The Prime Minister in his Note of 15th December, 1951, stated that the national economy could not bear so great a burden and asked the Departments concerned to produce modified proposals based on the following reduced pattern of expenditure:—

			Works	Production	Research and Development	All other Expenditure	Total
			£m.	£m.	£m.	£m.	£m.
Admiralty	...	...	14	161	15	140	330
War Office	...	...	30	200	...	270	500
Air Ministry	...	...	85	190	...	190	465
			<u>129</u>	<u>551</u>	<u>15</u>	<u>600</u>	<u>1,295</u>



5. The Prime Minister's Note also stipulated that expenditure on new works services in the United Kingdom for the purposes of the Investment Programme should be limited to a total of £53 million at September 1951 prices (Admiralty £7 million, War Office £11 million and Air Ministry £35 million) and that the total burden of production programmes on the metal-using industries should not exceed £440 million.

6. Proposals in conformity with the Prime Minister's Note were prepared by the Service Departments and discussed at a meeting with the Prime Minister and the Chancellor of the Exchequer on 20th December. The memoranda submitted by the Service Ministers and the discussion at the Prime Minister's meeting made it clear that a curtailment of Service Estimates to the extent described in paragraphs 4 and 5 would have produced a drastic set-back to the programme of rearmament with cancellation of contracts on a considerable scale. The Prime Minister agreed, therefore, at the conclusion of the meeting, that revised proposals should be worked out in consultation with the Treasury to mitigate the worst effects of the cut and in conformity with the general principles:—

- (i) that, although it was necessary for economic reasons to delay its completion, it was not intended to cut the rearmament programme;
- (ii) that we should concentrate on attaining the greatest possible readiness in 1952;
- (iii) that special regard should be paid to limiting the load on the particularly difficult sections of the national economy.

### III.—The Revised Proposals

7. In the light of these principles further discussions have taken place between the Departments concerned, as a result of which the following revised proposals have been drawn up:—

			<i>Production</i>	<i>Works</i>	<i>Research and Develop- ment</i>	<i>All other Expenditure</i>	<i>Total</i>
Admiralty	...	...	175·75	18·05	15·25	148·75	357·80
War Office	...	...	216·00	35·00	...	271·50	522·50
Air Ministry	...	...	191·00	76·00	...	203·00	470·00
			<u>582·75</u>	<u>129·05</u>	<u>15·25</u>	<u>623·25</u>	<u>1,350·30</u>

8. The provision for works services included above allows for the following expenditure on new works in the United Kingdom for the purposes of the Investment Programme in 1952:—

						<i>£m.</i>
Admiralty	...	...	...	...	...	6·5
War Office	...	...	...	...	...	12·0
Air Ministry	...	...	...	...	...	47·0
						<u>65·5</u>

9. *Man-power.*—The current estimate of the strength of the forces on 1st April, 1953, is as follows:—

Navy	...	...	...	...	...	146,400
Army	...	...	...	...	...	457,500
R.A.F.	...	...	...	...	...	297,500
Total	...	...	...	...	...	<u>901,400</u>

10. In order to achieve these figures it is proposed, subject to the Prime Minister's approval, to reduce the age of call-up for national service from 18 years 3 months to 18 years. This was the age provided in the National Service Act of 1948, although it was subsequently raised as there was at the time a surplus of men available for call-up.

11. No change is contemplated in the age at which men are posted overseas.

12. *Production.*—The reductions in the Service Estimates plus the delays to which the programme is already subject will make it necessary to regard the date of completion of the programme as put back on average by at least one year.

#### IV.—Recommendation

13. The modified proposals described in paragraphs 7–11 above together with certain other adjustments to the figures result in the following defence budget proposals for 1952–53:—

						<i>£ Million</i>
Admiralty	...	...	...	...	...	357·8
War Office	...	...	...	...	...	522·5
Air Ministry	...	...	...	...	...	470·0
						<hr/>
Total	...	...	...	...	...	1,350·3

SWINTON.

11th January, 1952.



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TOP SECRET

Copy No. 56

C.(52) 5

11TH JANUARY, 1952

CABINET

SERVICE ESTIMATES, 1952/53

Note by the Deputy Secretary of the Cabinet

By direction of the Minister of Health the memorandum by the Chancellor of the Duchy of Lancaster on the Service Estimates for 1952/53 (C.(52) 4) and the annexed telegram have been sent to Washington so that the Prime Minister may have an opportunity of commenting on them before the meeting of the Cabinet on Monday, 14th January, at 6.30 p.m.

(Signed) T. PADMORE

Cabinet Office, S. W. 1.,

11TH JANUARY, 1952.

ANNEX

Telegram of 11th January, 1952, to the Secretary of the Cabinet from the Permanent Secretary, Ministry of Defence

My immediately preceding telegram gives text of paper being circulated to Cabinet on Service Estimates as result of examination carried out between Lord Swinton and Service Ministers. The Chancellor of the Exchequer is in agreement with it.

2. In revising their Estimates Departments have had special regard to the views expressed by the Prime Minister at the recent discussions. In particular:-

(a) The total for all production has been increased from the £551 millions proposed in the Prime Minister's Note to £582.8 millions, including an increase of about £22 millions (£8½ millions for the Admiralty and the balance for War Office) in the figure of £440 millions suggested by the Prime Minister for total expenditure in the metal industries.

(b) £14.75 millions is restored for Admiralty production largely for anti-submarine and mining and anti-mining craft and equipment. This restoration should avoid the need for any cancelling of contracts.

(c) The War Office provision for production has been increased over the Prime Minister's provisional figure by £16 millions. This takes account of the Prime Minister's direction that -

(i) Tank production should be given priority; and

(ii) Advantage should be taken of the easier textile position, and generally avoids cancellation of contracts.

(d) £1 million has been added to the provisional figure for the air programme, partly on account of later and more optimistic forecasts for jet aircraft. The present provision should enable the Air Ministry to obtain all the modern aircraft which the Ministry of Supply think it likely that they will be able to produce.

(e) The works programme has been adjusted in part in order to enable the Air Ministry to make better progress with the airfield programme.

3. It will be necessary for the Cabinet to reach decisions on the paper at a meeting arranged for 6.30 p.m. (United Kingdom time) on Monday next. The Estimates will go for proof and further adjustments in any substantial number of subheads would be difficult. It would not be entirely impossible at a later date arbitrarily to add a global sum to a main subhead. But it would not be easy to relate any such adjustment to other items.

4. The Minister of Health thinks that you will wish to show this message and the Cabinet paper to the Prime Minister in Ottawa in case there are any points which he wishes the Cabinet to bear in mind when dealing with the matter.



CONFIDENTIALC. (52) 6

COPY NO. \_\_\_\_\_

65

16TH JANUARY, 1952CABINETKOREA: WINTER CLOTHINGMemorandum by the Secretary of State for WarWINTER CLOTHING

1. At a meeting of the Cabinet (C. C. (52) 3rd Conclusions, Minute 1) on 14th January, 1952, I was instructed to circulate a report on the provision of winter clothing for British troops in Korea, for consideration on 17th January. I give below a brief summary of the steps which lead up to the present position and I attach as appendices factual statements in regard to the present situation.
2. In 1946 the War Office began developing a new type of water-resisting and wind-proof combat clothing which, after the addition or removal of certain extra garments, would be suitable for wear in all climates. The new winter clothing now being issued in Korea is the result of six years' research and trial. When operations first started in Korea all British troops were issued with Finnish pattern winter clothing which was satisfactory. There is, however, no doubt that the new combat clothing is an immense improvement.
3. As soon as the trials had proved that the new combat clothing was satisfactory, the War Office, on 6th January, 1951, ordered sufficient for 15,000 troops, including maintenance. The Army Council approved the pattern of the new clothing on 20th March, 1951. Subsequently it was decided that sufficient should be ordered for large scale unit trials to take place in Korea and that as soon as possible provision should be made to cover the whole of our forces in that theatre. A further order for clothing for 10,000 troops, including maintenance was therefore placed on 27th April, 1951, giving a total well above the anticipated order of battle, which at present time is approximately 18,000. The Ministry of Supply had considerable difficulty in placing these large orders with the trade, especially as the time available for production was short if the suits were to be issued to troops in Korea before the winter began in November.
4. By the middle of August it was apparent that these orders would not be completed in time. In a telegram dated 5th September, 1951 (Appendix A) the War Office gave the British Commonwealth Force a forecast of deliveries of the new clothing. It pointed out that it would not be possible to deliver in the theatre sufficient to meet a full scale issue to the whole force before January or February 1952, and that in the meantime the first deliveries could be issued to fighting units for user trials.
5. At the beginning of the winter in November, 1951, the whole force was issued with the Finnish pattern. As the new type combat clothing arrived increasing numbers of fighting troops were issued with it. It is considered that recent complaints may be mainly due to the fact that two types of clothing are in issue in Korea and that one is much better than the other.

## BOOTS

6. During the winter 1950/51 Finnish boots were issued. These proved not to be entirely satisfactory and it became apparent that a new boot would have to be designed. This was done and orders were placed in April, 1951, for 54,000 pairs. At this time the design was not firm and deliveries did not begin until August. By 2nd December there were 25,000 pairs in the theatre, more than enough for the whole force.

## SIZES - CLOTHING AND BOOTS

7. Provision of the new clothing was made in accordance with the normal size estimates. These were, however, modified by a special provision (over 10%) for men between 5 ft. 11ins. and 6 ft. 2 ins. to meet the needs of the Australian and New Zealand contingents. It is thought that the complaints in regard to sizes had been due to an attempt to make a large scale issue of the new clothing before the full supplies had been received. All demands for special sizes received from Korea, if not already dispatched by sea and in transit have been sent out by air. At the present time all such demands have been met with the exception of 200 pairs of outsizes in boots which it is anticipated will be delivered by air before the end of January.

## SPACE HEATERS

8. For essential cold weather accommodation stores the Commonwealth Forces have always by arrangement depended on American supply. The initial demand for 3,000 was, by agreement with the War Office, placed on 25th July, 1951. 1,500 were issued in October. The Americans have since stated that they are themselves short of these heaters and that the scale of issue to the Commonwealth Forces is the same as that for their own troops. These heaters are not made in this country and the War Office had no reason to anticipate that the Americans would be unable to produce the numbers required. An additional 1,200 have now been released to our forces but they require burners which we are informed will be available in the near future.

## REPORTS FROM KOREA

9. The Engineer-in-Chief was on tour in Korea as late as 16th December and was asked specifically to enquire into the winter clothing situation. He reported "It is clear that there is no problem and everyone is well satisfied with the quantity and quality of the clothing available."

## THEATRE STOCKS

10. In Appendix B is a statement showing the stock position of critical items of winter clothing in the theatre at various dates. With the new suit, for cold weather wear, a middle parka is essential. The production of parkas has always been most difficult and deliveries have therefore lagged behind the other articles. Stocks of the latter have always been greatly in excess of the number of parkas. For this reason the figures given in Appendix B relate to parkas only.

A.H.

War Office, S.W.1.,

16TH JANUARY, 1952.



APPENDIX A

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War Office Telegram of 5th September, 1951

On basis of types of clothing used last winter you should have sufficient stocks for all your commitments. Appreciate that Boots Finnish pattern were not satisfactory. New pattern ankle boots consequently developed here and we are endeavouring to send maximum quantities as soon as possible. Unlikely, however, that you will receive at PUSAN more than 12,800 by end October. Your plans for issue should be drawn up accordingly. Hope to send further 7,000 to arrive PUSAN early December making total 20,000 which should suffice for all purposes. Our calculations show you should receive sufficient mukluks with insoles and sufficient socks duffle for all purposes by early November. There may be delays in providing some minor items of underclothing, etc., modified from patterns used last year, but this should not cause difficulty as older patterns should be available initially.

COMBAT CLOTHING. Intention was to provide sufficient Combat Clothing for large scale experiment under fighting conditions in cold climate and shipment of all items has started. By early November you should have sufficient Combat smocks for fighting troops and sufficient Combat trousers, hoods attachable and inner trousers for issue to all troops actually in Korea. For cold conditions, however, a middle parka is an essential part of the Combat suit. It will be impossible to supply more than 3,000 to arrive PUSAN by end October. You should therefore only start experimental use of Combat clothing with selected major units within the available numbers of middle parkas. Cannot ship middle parkas by air owing to large weight involved and shortage of cargo aircraft. Shipment of all items Combat Clothing to meet your strength of approximately 19,000 cannot be completed to arrive sooner than January or February, 1952.

Request you report immediately if you anticipate unacceptable difficulties.

## APPENDIX B

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### Stock Position of Critical Items of Winter Clothing in Korea Theatre at Various Dates

NOTES:

- (a) Winter is assessed as beginning in early November.  
By this date every man was equipped with last year's type winter clothing.
- (b) Strength of Force (excluding CANADIANS whom we do not equip) is approximately 18,000. Of these some 2,000 are in JAPAN.  
Strength of fighting troops - say 9,000.
- 

1. PARKAS - without which the new Combat Clothing cannot be issued

By 13th November	13,199
By 16th January	20,674
By 5th February	27,682

2. BOOTS - New pattern - complete with insoles

	<u>Boots</u>	<u>Insoles</u>
By 13th November	16,071 pairs	18,025 pairs
By 2nd December	25,376 "	27,600 "
By 16th January	35,824 "	38,737 "
By 5th February	42,620 "	42,881 "



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SECRET

C.(52) 7

COPY NO. 71

17TH JANUARY, 1952

CABINET

BATTLE ACT: RESTRICTIONS ON  
EXPORTS TO THE SOVIET BLOC

Memorandum by the Secretary of State  
for Foreign Affairs

I attach for the consideration of my colleagues:-

- (i) a summary of the issues raised at talks which have just taken place in Paris on the implications of the Battle Act, prepared for me by the Foreign Office leader of the United Kingdom Delegation (Annex A);
- (ii) a report submitted by him on behalf of the United Kingdom Delegation (Annex B).

2. I regret that I should have to ask you to discuss these important matters at such short notice. The reason for the urgency is explained in the summary.

3. I propose to reserve my views until I can discuss the matter with my colleagues.

A.E.

Foreign Office, S.W.1,

17TH JANUARY, 1952.

ANNEX A

BATTLE ACT AND RESTRICTIONS ON EXPORTS  
TO THE SOVIET BLOC

Minute by Mr. Berthoud to the Secretary of State for Foreign Affairs

As leader of the United Kingdom Delegation set up for the talks with our associates in the Paris Group (including the Americans) I submit our Report written in Paris yesterday. The reason for haste is that the Paris Group has been reconvened on 21st January to hear the views of Governments on the three reserved points. This meeting cannot be delayed because the Battle Act comes into force on 24th January. The Americans are responsible for this unfortunate last minute rush as they postponed discussion in Paris. The general picture which emerged in Paris is as follows:-

2. The Cabinet instructions were broadly:-

- (1) To get the United Kingdom views over to the Americans with the support of our European associates, without damage to Anglo/American relations. In this we were successful.
- (2) On a rigid interpretation of the instructions, to get the Americans to give assurances that Battle Act sanctions (withdrawal of aid) would not be applied against any country which adhered to the existing Paris Group "principles and policies". This would be equivalent to a rubber stamping by the Administrator of the Act of the actions of the Paris Group members who have considerable latitude to make their own exceptions to the rules. We were not successful in this, mainly because the Americans claim in the words of their delegate that "the Act does not permit the Administrator to substitute the Paris Group judgment for his own judgment".

3. We did, however, get the Americans to say that the Administrator would consult the Paris Group before imposing sanctions or adding to his lists which at present do not differ much from ours. This is the intention of the changes in present procedures proposed by the Americans. We, therefore, preserved the principle that all these matters would be discussed with the Americans in the Paris Group and not bilaterally by the Americans with individual members. This saves face. Furthermore there was clear recognition by the Americans that final decisions on what should or should not be exported remained reserved to national governments.

4. The present American Administration appear genuinely anxious to be reasonable about all this. They point out that they did not want the Battle Act and that it was as a result of their efforts that the previous much worse Kem Amendment was replaced. They fear that if we ignore the Act, which is our alternative, Congress will impose worse legislation.

5. The strong point against agreeing to any changes at all is that if we make them under the threat of the Act, we are to some extent condoning it, and other more difficult concessions may be demanded later, particularly if there is a change in the United States Administration. As this raises so important a point of principle and policy, the attached Report which was agreed by the Ministry of Defence and Board of Trade representatives on the Delegation, does not make a firm recommendation. The position of His Majesty's Government and of all other European partners in this field has been fully reserved on all the changes proposed by the United States.



6. The points on which decisions are required by Ministers are in paragraphs 9 - 13 and 21 of the Report. They are:-

(i) Paragraph 9

Should we agree to some tightening up of the exceptions procedure, involving a greater obligation to discuss with the Paris Group (except where this is impracticable) exports of goods which we have agreed should be denied, but which are needed to secure essential imports from the Soviet Bloc? This does not raise a new point of principle.

(ii) Paragraph 12

Should we hold up exports to the Bloc of strategic - goods which we are committed to supply under existing contracts to give the Administration more time to consider them and get authority for the necessary exceptions under the Act?

(iii) Paragraph 13

Do we agree to consult the Paris Group before exporting some six items which are on the American embargo list but not on ours? This would be a new obligation.

7. Questions (i) and (iii) are linked. Question (ii) gives rise to administrative difficulties. Finally paragraph 21 of the Reports needs consideration.

(Signed) E.A. BERTHOUD

17th January, 1952.

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ANNEX B

31

BATTLE ACT AND EAST-WEST TRADE

Report by Leader of United Kingdom Delegation to the  
Foreign Secretary.

Reference Minutes of the Cabinet Meeting held on  
January 3rd, 1952.

1. As reported to the Cabinet in C(52)1 the United States Battle Act provides for stringent restrictions on trade with Soviet countries as a condition of U.S. military and economic aid. It appeared that these restrictions were likely to be more stringent than those at present applied by international agreement.
2. The decision of the Cabinet subsequently endorsed by the Prime Minister and the Foreign Secretary, was that at the discussions contemplated in the Paris Group the United Kingdom should, in association with other European member countries, endeavour to persuade the United States Government to administer the Battle Act in a manner consistent with the principles and procedures already agreed by the Paris Group.
3. A U.K. Delegation was formed to carry out these instructions. It consisted of a Foreign Office leader and representatives of the Ministry of Defence and Board of Trade.
4. The tenor of the Cabinet decision was communicated through the diplomatic channel to the Governments of member countries including the United States, in advance of the Paris meeting. Valuable preliminary talks took place with the U.S. and French Delegates.

Proceedings in Paris.

5. The Co-ordinating Group met in Paris on January 15th and 16th. The U.K. Delegate made the opening statement. The text is at Annex A. This received general European support. The French Delegate strongly objected to any efforts to apply American legislation to European countries. He and a number of other European delegates emphasised the importance of East-West trade to their countries. All European delegates were strongly opposed

to/



to any change in the principles and procedures of the Paris Group.

6. The U.S. Delegate agreed on the importance of maintaining the Paris Group, but made three suggestions involving modifications of its present principles and procedures which would assist the Administrator to discharge his legal obligations under the Act, using the machinery of the Group. For text see Annex B.

7. At the close of the session an agreed summary was prepared. For text see Annex C. It will be seen that all the European members of the Group reserve their position on the three U.S. suggestions.

#### Appreciation.

8. The discussion revealed a remarkable degree of unanimity between the European countries. It however quickly became evident that the U.S. delegate was not in a position to undertake that the Administrator would administer the Act on the basis of decisions taken by the Paris Group, since he was legally bound to keep the final decisions in his own hands. He was however prepared to give maximum weight to Paris recommendations and to change existing procedures and policies as little as possible. This led to the three U.S. suggestions mentioned in para. 6 above which are set out in greater detail in para. 4 of Annex

C. Our comments on them are:-

#### (a) Exceptions Procedure

9. Under present Paris Group arrangements, whilst there is a general obligation to inform the Group as far as possible before exporting items subject to embargo, it is open to each Government to make its own decisions first and justify them afterwards. The Americans now propose that it should be mandatory to consult the Group in advance and in detail in all but the most exceptional circumstances. It is, however, admitted by the Americans that

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each country would still be free to take its own decision after the consultations.

10. Apart from desiring to limit the number of exceptions, the purpose of the American suggestion is to enable the U.S.

member of the Group to report to the Battle Act Administrator, who can then assess the position and if he does not agree that an exception is justified can so inform the exporting country through the Paris Group. The exporting country when taking its decision would have to have regard to the possible effect on U.S. aid.

11. The American proposal does not involve a basic departure from present Paris Group policies, and preserves the integrity of the Group. It will, of course, make it more difficult for exporting countries to take decisions on individual cases which might involve cessation of all aid.

(b) Suspension of Shipments of Items on the Battle Act Embargo Lists.

12. Lists are being tabled in the Paris Group by all countries of present outstanding obligations to supply goods to the Soviet Bloc which appear on the American Embargo Lists. Under the Act, the Administrator must grant a specific exception each time such an item is shipped. The Americans proposed that there should be a suspension of such shipments to give time for consideration in Washington. The U.S. delegate said that while the decision in the last resort must rest with the Administrator, full weight would be given to the nature and existence of these obligations, and that exceptions would probably be easier than in the case of new commitments.

(c) Control of Exports of Items on the American Embargo List, but not on ours.

13. There are a relatively small number of items which are set out at Annex C of Paper C(52)1 which are subject only to quantitative control on our lists, but to embargo under the

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Battle Act. As the Administrator cannot give these items special treatment on that account, the U.S. delegate proposed that there should be prior consultation as if they were in fact on the Paris Embargo Lists.

14. It should be pointed out in respect of points (a) and (c) above that the number of cases in which the U.K. are likely to press for the use of the Exceptions Procedure is small.

The items covered at (c) do, however, include transport equipment, locomotives etc., to which we attach importance.

15. The following general points should also be mentioned:

(1) Harmonising of Paris and Battle Act Lists, etc.

There is no American pressure to have identical Paris Group and American Lists. We were assured that the Administrator, whilst reserving his final decision, would consult the Paris Group before adding or subtracting from his present lists. As mentioned in para. 2 of Annex C to this report, efforts will be made to resolve differences of definition between the two sets of lists.

(2) Title II Items.

The Battle Act provides for the fixation of quantitative limitations on the export of items to be listed under Title II. Some of these are not already on International List II. It is proposed that they should be the subject of bilateral discussion. It was agreed in Paris to await proposals from the U.S. The U.S., Title II List includes such items as tin and rubber, which are vital for the U.K.

(3) Publicity

The Americans seem anxious to publicise actions taken under the Battle Act. We strongly deprecated this idea and were supported by other European countries.

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Conclusion

16. It was not possible to persuade the U.S. representatives to accept our main contention, namely that they should operate in conformity with the present policies of the Paris Group. It is probably legally impossible for them to do this. We have therefore failed to prevent aid being used to enforce American policy. The position still is that we risk the total loss of aid if we do anything contrary to the Battle Act, even if we are supported by all the other European members of the Paris Group.

17. The U.S. are however prepared to consult the Group either about adding items to embargo lists or about exports requiring exceptions under the Act and to give weight to their views. Their proposed changes to existing Paris Group procedures are designed to ensure that any matter requiring action by the Administrator under the Act is first discussed by the Paris Group.

18. The three U.S. proposals referred to in paras 9 ~~and~~ to 13 ~~and~~ above preserve intact the multilateral approach and the sovereign right of each country to take its own decisions whatever the consequences. They would however restrict freedom of action by making it much more difficult for us to make our own exceptions, as we must first consult the Paris Group in all but the most exceptional circumstances. It is fair to add that there have not been many occasions in the past when we have needed to invoke the exceptions procedure,

Recommendations

19. Acceptance of the U.S. proposals would probably in the short term incline the U.S. Administration to operate the Battle Act in a reasonable way. If they could be relied upon to heed the views of the Paris Group, it would therefore probably pay us to accept the proposals as there is no

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prospect of changing the terms of the Act itself. Indeed we were repeatedly warned by the U.S. delegate that there was a serious risk of worse legislation.

20. On the other hand, to make any concession now is dangerous because it implies giving way to legislation to which we object in principle. We must remember that the Americans are likely to suggest limitations in our exports of tin and rubber.

21. We therefore recommend that if Ministers decide to accept the U.S. proposals, we should, when notifying the Paris Group (which reconvenes on Monday, January 21st.) make clear that:-

- (a) we regard the result as unsatisfactory;
- (b) we keep a free hand on the outstanding question of restricting exports of Title II commodities including rubber and tin.

The U.K. decision will <sup>greatly</sup> ~~slightly~~ influence the other European countries.

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Paris,

16th January, 1952.

STATEMENT OF THE UNITED KINGDOM DELEGATE  
TO THE CONSULTATIVE GROUP

January 15, 1952

We are here to discuss the relationship between the present principles and procedures of the Group and the Mutual Defence Assistance Control Act of 1951, an Act which attaches certain conditions to the continuance of any aid given by the United States to friendly countries. We have all, I think, received an Aide Memoire from the United States Government on this subject, to which we have been asked to reply not later than 24th January. His Majesty's Government for their part thought it desirable to discuss the problems involved with their partners in the Group, including of course the United States; and we welcome the presence of Mr. Linder here to-day.

2. Section 101 of the Act declares it to be the policy of the United States to embargo certain types of goods to Soviet bloc countries, namely arms, ammunition, and implements of war, atomic energy materials, petroleum, transportation materials of strategic value, and items of primary strategic significance used in the production of arms, ammunition and implements of war. You will see that there is not one of these categories which is not covered by the International Lists operated by members of this Group, or by the Common Reference List of War Materials, or by controls on atomic energy items. There is thus a basic similarity between the objectives at which the Act purports to aim and those of this Group. There are, however, some differences between the lists already drawn up by the Administrator and those to which we collectively subscribe. Furthermore the Administrator of this Act is empowered to make unilateral additions to the lists. But perhaps the most serious difficulty is that recourse to the exceptions procedures agreed by this Group after lengthy consideration and discussion would involve the risk of withdrawal of all U.S. military and economic aid.

3. My Government believe that all members of the Paris Group would wish to avoid any action prejudicial to the discharge of its present important functions. Its work is an outstanding example of international cooperation in a field in which independent national action cannot be fully effective. It is essentially a multilateral system and we believe that in matters concerning the common defence effort, and the security of the free world, it is essential to preserve the multilateral approach. Two conditions are in our view fundamental to the correct discharge by the Group of its present agreed functions:

- (a) Maintenance of the strategic criteria governing the selection of items for embargo or restriction, unless relationships between East and West undergo a change.
- (b) Preservation of the principles and procedures governing exceptions.

4. There is, to the best of our knowledge and belief, nothing in the Battle Act which would preclude its being administered in a manner fully consistent with the principles and procedures of the Group, and this would in our view be in the best interests of all of us.

5. I will now refer to the more specific points which arise:

- (i) Differences between lists

/Setting



Setting aside atomic energy and munitions items, which are covered separately, the International Embargo List falls very little short of the list of "items of primary strategic importance" under Title I of the Act. Agreement has already been reached here to limit the exports of the residual items. We still do not consider that these items come within the existing criteria for embargo; with one or two exceptions they have been exhaustively discussed in this forum and their inclusion in the Battle Act list is not, we think, in itself a reason for changing their classification on the international lists.

(ii) Exceptions Procedure.

The Group has always recognised that rigid enforcement of security export controls is liable in particular cases to defeat their object, which is to increase the strength of the West relative to that of the East, and my Government set great store by the flexibility which the agreed procedure for exceptions provides. Each member has the right to export an embargoed item to the Soviet bloc if, having regard to its strategic importance, it considers this justifiable in order to obtain essential supplies. Any such relaxation of controls has to be reported to the Group with a statement of the circumstances held to justify it. The Group is free to comment and to influence future action, but the decision in each case rests with the exporting country. This, in the view of H.M.G., is a point of fundamental importance and we would strongly urge our United States colleagues to recognise it and use the exceptions procedure provided under the Battle Act in such a way as to permit of its retention.

(iii) Prior Commitments.

What I have said above about the need to retain scope for exceptions applies, we think a fortiori to the case of Prior Commitments.

6. There is another general factor: in any appreciation of the position of this Group vis-à-vis the Battle Act, account should, we think, be taken not only of the close coincidence of the International Embargo List with the corresponding Battle Act List, and of the existence of the Group's machinery for making exceptions in cases of necessity, but also of the wider considerations referred to in the Act itself, namely "the special contribution" of recipients of aid "to the mutual security of the free world, the importance of such assistance to the security of the United States", and "the strategic importance of imports received from countries of the Soviet bloc".

7. We appreciate that in many ways the Battle Act marks a closer appreciation of the position of the Paris Group than its predecessor, the Kem Amendment, and in particular that there is provision (as regards Category B of Title I) for consultation with the Group before the terms of the Act are applied in their full rigour. We very much hope that this provision, coupled

with/

with the President's power to make exceptions, opens the door to some arrangement under which the Act can be administered in a manner fully consistent with the principles and procedures of the Group and so as not to infringe the sovereignty of the members of the Group.

8. It is not for us to suggest how this should be done; we are not the experts on the Battle Act. We took the initiative in seeking this discussion and in the presence of the United States Delegation, in order to convince them of the validity of our case for maintaining the principles and procedures of the Group and to enable them to make proposals for a modus operandi; within the limitations I have described, we shall be ready and willing to examine such proposals.



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Annex B.

STATEMENT OF THE UNITED STATES DELEGATE

TO THE CONSULTATIVE GROUP  
January 15, 1952

1. I deeply appreciate this opportunity to discuss with you some of the problems of mutual interest which have developed since our meeting here last July. You will recall, I am sure, my discussion of the Kem Amendment which had been adopted by the U.S. Congress a short time before and my emphasis on the political realities which that legislation reflected. (CG Paper IV, Annex A - July 19, 1951).

2. I mentioned then that the President in signing the Kem Amendment called for more flexible and practicable legislation. After most careful and detailed Congressional consideration the Battle Act was enacted by Congress. (The Act is officially entitled the Mutual Defense Assistance Control Act of 1951, Public Law 213).

3. This Act reflects the serious concern of the Congress and the American people with the flow of strategic goods to the Soviet Bloc. Furthermore, it provides, we believe, a realistic basis for U.S. participation in constructive security-control measures in the mutual security interests of the free nations. Your governments are already familiar with the provisions of the Act. They were described in some detail in the aide-memoire which was given to your Governments at the time the initial determinations under the Battle Act were transmitted. We are aware that your Governments may have been concerned that the Battle Act, by its terms, or in its administration, might jeopardize the existing multilateral arrangements for dealing with security export control problems. Such a concern is understandable, particularly in view of the fact that the time limits set in the legislation necessitated certain decisions by the Administrator without opportunity for as full consultation with the Co-ordinating Committee countries as we would have wished. However, it was not the intent of the legislation, nor is it the intention of the Administrator, to impair multilateral efforts to obtain adequate security controls. On the contrary, one of the major purposes of the legislation is to strengthen the security control effort through further international

operation.

4. Even though I may be repeating myself, let me state again that it is the intent of the United States Government to seek to strengthen international cooperation in the field of mutual security. United States policy, as expressed in part in the Battle Act, looks toward increased cooperative action in the security control field, not only among the Western European nations receiving United States assistance but among all the free nations.

5. The United States regards the Consultative Group structure as the appropriate forum in which to discuss problems relating to the control of strategic exports from our countries to the Soviet Bloc and we shall take into full account existing or future Coordinating Committee arrangements. In making the initial determinations as to the list of commodities of primary strategic significance which should be subject to embargo, the Administrator has, with only a few changes, adopted International List 1, the arms categories generally covered by a Coordinating Committee agreement, and the atomic energy categories already agreed by your individual Governments for embargo to the Soviet Bloc. This was a clear recognition of the careful and effective work done by the Coordinating Committee in developing its lists of strategic commodities.

6. Before considering how best to relate the administration of the Battle Act and the activities of the COCOM, it is necessary to have a full understanding of the statutory requirements placed on the Administrator and on the President. The Administrator is required to recommend to the President termination of aid to any country which knowingly permits the export of Title I commodities to the Soviet Bloc. With respect to Category A, the munitions and atomic energy list, it is mandatory that aid be terminated. No exception is permitted in any circumstances. With respect to the items in Category B of Title I



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which is, as you know, substantially the same as International List I, the President may in his discretion direct the continuance of aid to a country which has exported such an item to the Soviet Bloc "when unusual circumstances indicate the cessation of aid would clearly be detrimental to the security of the United States." But you will note that in making such a determination, the President will take into account: "the contribution of such country to the mutual security of the free world, the importance of such assistance to the security of the United States, the strategic importance of imports received from countries of the Soviet Bloc, and the adequacy of such country's controls over the export to the Soviet Bloc of items of strategic importance." It is clear from the history of the legislation that the exception provisions must be reserved for the truly unusual circumstances.

7. Title II of the Act provides that the United States shall negotiate a program for controlling exports of strategic items not subject to embargo under Title I. It also provides that aid shall be terminated if the President determines that other countries are not effectively cooperating in this activity, or are furnishing insufficient information so that a judgment can be made. Title III of the Battle Act relates to discussions with countries which are not receiving aid and also authorizes the U.S. to furnish technical advice and assistance on export control procedures to any nation desiring such cooperation.

8. I think it will be apparent from what I have said about the provisions of the Battle Act that there are a number of specific issues which our Governments must face if we are to achieve a maximum degree of harmony between the operations of the Coordinating Committee and the conduct of our Administration in carrying out its responsibilities under this Act. First, there are a number of questions relating to the procedures to be followed in making changes in the Battle Act lists. Second, there is the question of how Title II is to be implemented. Third, and perhaps the most difficult, there are the questions relating to the handling of exceptions under the Act. On each one of these matters we have certain points we should like to make and suggestions which

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● wish to put before you for consideration. Before turning to these questions, however, I should like to say a word about our views on how the public understanding necessary for a reasonable administration of the Battle Act, consistent of course with the need for security, can best be achieved.

9. The United States Government has, in the past, been handicapped in bringing about an adequate public understanding of the real accomplishments of multilateral cooperation and the steps taken through the Coordinating Committee to strengthen trade security controls. We have recognized the problems which publicity would raise for other Coordinating Committee countries and have, therefore, refrained from release of much factual information which, if it could have been made public, might have resulted in better understanding in the United States of action taken under this program. A continued lack of information may lead to more restrictive legislation which would greatly handicap the multilateral approach. For this reason the Administrator desires to follow a policy of publicly releasing actions taken by him under the Battle Act legislation in so far as the release of the information is consistent with the best interests of all cooperating countries and we hope other governments will agree that a more liberal policy on release of information is in our mutual interest.

10. The Battle Act requires frequent reports to a number of committees of Congress concerning actions taken under the Act. In addition to this formal requirement, the Administrator intends to cooperate closely with the Congress and to consult with these committees regarding major problems with which he will be confronted. It will, therefore, be necessary to inform the Congressional committees on various aspects of discussions with other governments concerning the Battle Act and their activities related to it. Information given to the Congress concerning the Coordinating Committee will be classified in accordance with our agreement in the Committee (COCOM Docs. 267 and 423). Public disclosure of the work of the Coordinating Committee will be subject to preconsultation as has already been agreed.



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11. Until now, only the Title I, Category A, list and the 3-page summary description of Title I, Category B, together with a general statement of action taken under the Act, has been made public. The United States has not made public disclosure of the 7-page generalized listing of Title I, Category B. However, at the time our aide-memoire was presented we requested your views on the publication of that generalized version. We would like to be in the position to release this version promptly if a further disclosure of the contents of the Category B list appears necessary. It is not now intended to publish the complete and detailed Title I, Category B, list. If publication later appears necessary we will, of course, consult with the Committee.

12. With respect to changes in the Battle Act lists, it is the intent of the United States not to modify the Title I or Title II lists until there has been an opportunity for discussion of a proposed change in the Coordinating Committee. In making any alteration, the Administrator will give full consideration to the discussion in the Coordinating Committee and to the views of the individual countries, although, under our law, the Administrator has responsibility for making the final decision on the items which he will include in any of the lists.

13. Insofar as action under Title II of the Act is concerned the Administrator has, as you know, listed 28 items which, in the view of the United States, require the application of stringent export control measures. Some of these items have already been agreed in the Coordinating Committee for addition to International List I. In the past the United States has urged that a limited number of the other items which now appear on Title II also be placed under embargo control. A major consideration in placing these items on the initial Title II list, rather than on Title I, was our recognition of the fact that they were still under discussion in the Coordinating Committee or had not been agreed for embargo by all members of the Group. Rubber and tin are included on Title II since they are considered to be of such importance as to require particular attention under the terms of the Act. In the case of those items on Title II

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which have not been agreed for International List I, I am not yet in a position to indicate what degree of control the Administrator will feel he should seek in order to meet the purposes of the Act. I can say, however, that if additional measures appear necessary it is our intention to raise them for discussion in the Coordinating Committee.

14. Finally, there is the problem of exceptions. We recognise that, under present circumstances, the urgency of Western requirements for a few commodities from the Soviet Bloc has enabled the Bloc in some cases to obtain items which are subject to the embargo provisions of Title I of the Battle Act. We believe we must find a way to minimize such shipments in the future and that together we can do so. This calls for more effective marshalling of our combined efforts.

15. Consistent with the criteria set forth in the earlier part of my statement (Paragraph 4) exceptions can be made under the Battle Act when there is no practicable alternative to the shipment of a Title I, Category B, item. Exceptions under this Act, however, must be of a different character than those under the ~~Kem~~ Amendment. The Kem Amendment was sweeping in character and it was apparent from the start that few countries could comply with its terms without injury to the strength of the free world. The Battle Act, on the other hand, reflects both an appreciation of the large measure of international agreement on these questions and the necessity for limiting the list of embargoed items to those of primary strategic importance. In the light of the history of the present legislation, the Administrator considers that exceptions under this Act must be of a specific and limited nature and that any general exception of the character initially made under the Kem Amendment must be avoided.

16. The use of the exception provisions of the Act will, of course, require full and complete information on the circumstances involved. Although the Act requires that the final decision must rest with the

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President, we wish to have the Coordinating Committee participate as fully as possible and are confident that full weight will be given to its information and views on the proposed export of a Title I, Category B, item. Accordingly, the United States suggests that the Coordinating Committee exception procedures be amended to provide for discussion on all proposed exports of items on the International List I, before the shipment is made or the commitments undertaken. In addition, it is desirable that there be prior consultation on proposed exports of the arms, the atomic energy, and the four additional items which are on the Category B list but which do not now appear on International List I. This procedure should assure the adequate discussion of all aspects of a prospective shipment; would provide interested countries and the Administrator with the views of participating governments regarding the case; and, it is hoped, would suggest a means of avoiding the proposed shipment.

17. Insofar as existing commitments are concerned, we are unable to express definitive views on the immediate decisions which will be required since details regarding the commitments and the problems they may present have not thus far been available. However, it is only fair to state that it is our belief that there may be some commitments to export Category B items which in line with the Coordinating Committee understanding the countries concerned may not need to fulfill. In any case, an adequate appraisal of the problems posed by existing commitments and an acceptable means of dealing with them depends on the availability of full information. We hope that in the course of these meetings you will be able to present enough details so that together we can discuss means of handling the problem. If, on the basis of available information on existing commitments and scheduled shipments, it appears that the Administrator would not have time in which to reach a judgment, I shall suggest that shipments against these commitments be suspended as of January 25. This suspension would be only for the minimum time required for an adequate appraisal of the factors involved and would, of course, be without prejudice to the eventual fulfilment of the commitments if it is

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determined that circumstances justified exceptional treatment. In the light of recent experiences on exceptions in the COCOM I do not believe that these problems will be numerous or ones to which we cannot find a solution. I want to assure you that my Government, for its part, intends to make every effort to avoid any unreasonable delay.

18. In closing, I should like again to express my appreciation for this opportunity to discuss these questions together and to emphasise that we wish to be as realistic and constructive as possible in seeking with you the proper answer to the problem of export controls in our mutual security interests.



AGREED CONCLUSIONS OF CONSULTATIVE GROUP

1. At meetings of the Consultative Group held in the morning and afternoon of the 15th January, 1952, the agreed agenda was discussed. The European Members began by explaining their attitude towards the problems arising in the Paris Group as a result of the Battle Act. The United States representative then explained the provisions and objectives of the Battle Act and put forward suggestions for the consideration of the Group. All Delegates agreed on the need to continue multilateral discussion and cooperation through the Consultative Group and the Coordinating Committee.
2. The Group agreed:
  - (a) To invite the Coordinating Committee to compare the Title I Lists, Category A and Category B, with International List I and the Reference Munitions List to identify and clarify any differences. The Coordinating Committee was directed not to concern itself with either the atomic energy portion of Category A List or national atomic energy lists.
  - (b) That each Member would send to the Coordinating Committee as soon as possible lists of its outstanding commitments to supply to the Soviet bloc items in Title I Category B.
3. The Group noted:
  - (a) The statement of the United States delegate that it was the intention of his Government not to modify the Title I or II lists until there had been an opportunity for discussion in the Coordinating Committee of any proposed change.
  - (b) That the United States would later make suggestions for a discussion of further action under Title II.
4. The European Members of the Group reserved their position on the following U.S. proposals:
  - (a) Amendments to the Exceptions Procedure. (U.S. statement and proposed alterations to document COCOM No. 471 are attached).
  - (b) That shipments to the Soviet bloc of items in Title I Category B on which a Member has outstanding commitments should, as from January 25th, be suspended until there has been time for an adequate appraisal of the factors involved.
  - (c) Modifications in procedures in respect of items which are on Category B List but do not appear on International List I.
5. The Consultative Group agreed that the results of the day's meetings would be submitted to Governments and the Group would meet again on Monday, 21st January.

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Reference paragraph 4(a) of Annex C

STATEMENT BY U.S. DELEGATE  
CONCERNING  
PRE-CONSULTATION ON EXCEPTIONS

1. During the discussion yesterday, it was suggested that we present a proposal concerning the manner of handling exceptions. We are very happy to comply with this suggestion and are now presenting certain specific ideas for the consideration of the Group. They have been developed in relation to several basic considerations which I touched on yesterday--that is:

That so far as the Battle Act is concerned, the Administrator must be informed in advance as to proposed shipments of any item on the Category B List regardless of how that item is carried on the International Lists;

That, in the interest of effective multilateral cooperation, we believe it desirable that the advance consultation might, at least so far as future commitments are concerned, take place in the COCOM before the commitment is made;

That the consultation in the COCOM should be directed at obtaining the fullest possible presentation and discussion of the circumstances, which will provide the Administrator with the benefit of the information and considered views of all the individual governments;

And that, while the Act does not permit the Administrator to substitute the Committee's judgment for his judgment, nevertheless he is prepared to give full weight to the views and information developed by adequate discussion in the Committee.

Another basic consideration we had in mind is that, so far as the Act is concerned, there is no distinction between shipments under commitments made before January 24 and those under commitments made after January 24. However, as I mentioned yesterday, the circumstances and considerations relating to prior commitment cases may be expected to weigh heavily in the Administrator's decision.

2. Having said this, I would suggest that if the members of this Group wish to create the maximum harmony between the operations of the Coordinating Committee and the administration of the Battle Act, it would be desirable to proceed on the basis of the following understanding so far as the Committee's exception procedure is concerned:

a) We believe that consultation in the Coordinating Committee, as provided in paragraph 2 of COCOM Document 471, should take place before commitments are made to export items which would constitute exceptions to the agreed controls, unless the exigencies of the negotiating situation make such advance consultation impossible. In that event, consultation should take place as soon as possible thereafter.

b) In advance of the actual export of an embargo item, we believe that any Participating Country should be able, and we hope will have the interest, to bring up the proposed export for discussion in the Committee if it considers that there has been a material change in the circumstances surrounding the transaction between the time that the commitment was made and the time that the shipment is to take place.



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c) Consultation in the Committee is intended, as we understand it, to assist the exporting country to assess the strategic importance of the export involved in relation to the essentiality of the counterpart supplies to be received, and to make it possible for the exporting country to judge whether there is a practicable alternative to the shipment of strategic goods which need to be made to avoid the loss of essential supplies. We also understand that exporting countries will give full weight to the views of other countries expressed in the Committee.

d) In the case of items whose strategic importance has not been agreed upon unanimously in the Committee, and which are, therefore, controlled according to the "quid pro quo" provisions of paragraph 3(d) of COCOM Document 470, we believe that Participating Countries should feel free to consult the Committee at any time in order to clarify the strategic significance of the items or of the quantity involved in relation to the adequacy of the "quid pro quo" in any transaction.

e) We take it for granted that the Committee at any time may agree that in the case of certain 3(d) items, as with an embargo item, Participating Countries should consult with the Committee in advance of making an export commitment.

3. Hence, we suggest that, in addition to an indication of concurrence in paragraph 2 above, the members of this Group might alter the exceptions provisions in COCOM Document 471 in the following way:

a) Change paragraph 2 of the document to read as follows:

"Governments will inform the Coordinating Committee, in advance and in detail, regarding any trade negotiations or proposed transactions which may result in such exceptions and will invite the views of other members of the Committee. (It is recognized that there may be a few exceptional cases where the exigencies of the trade negotiations made it impossible to inform the Committee before entering into commitments involving exceptions. If such cases occur, the Committee will be informed as soon as possible thereafter.)"

b) Add the following at the end of paragraph 3 of the document:

"With respect to information filed with the Coordinating Committee concerning prior commitments, any Government may request further amplifying details."

Printed for the Cabinet. January 1952

The circulation of this paper has been strictly limited. It is issued  
for the personal use of ~~Permanent Secretary, Ministry of Defence~~

TOP SECRET

Copy No. 27

C. (52) 8

19th January, 1952

CABINETTHE ECONOMIC SITUATION

## MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

At their meeting on 17th January (C.C. (52) 4th Conclusions, Minute 3), the Cabinet decided to examine on Tuesday, 22nd January, the economic and financial measures which I would recommend to them. These are contained in this and in another paper which I am circulating to my colleagues. I put these proposals forward on my own responsibility, but most of them owe their origin to and have already been approved by the Sub-Committee on the Economic Situation.

2. Since the Sub-Committee's first report was submitted it has become increasingly clear that we are facing a balance of payments crisis of major dimensions. The rate of loss of gold and dollars is continuing and it now seems certain that, even taking into account the aid which we have been promised from the United States, the reserves will have fallen to £500 million by the end of June—that is, the level at which they stood at the time of devaluation in September 1949. It is quite clear that only the most powerful and convincing action can prevent a major calamity for sterling.

3. Discussions have been proceeding between the Commonwealth Finance Ministers in order to get effective and co-ordinated action throughout the whole of the sterling area to stop the rot. I am circulating a further paper on this.

4. This paper deals with internal action in the field of investment, consumption and Government expenditure. This action is all of decisive importance for dealing with the balance of payments crisis. This is for two reasons:—

- (i) The balance of payments crisis is at bottom due to our failure—and the failure of the other sterling area countries—to develop earning power to the extent required to pay for the imports we need. The increase of our earning power is fundamental and this requires that our exports should be competitive and our industry flexible. Over a wide range of our exports we are becoming uncompetitive and we can build our exports only if our industry has the load for home demand taken off it and is placed in a position in which it *must* compete for export business in order to survive. This state of affairs can be created only by resolute action to reduce the internal load upon our economy.
- (ii) There is a general feeling abroad that the United Kingdom economy is "soft." There will be no return of confidence in sterling until it is shown beyond any doubt that there is a major change in the direction of our economy and that we are hardening ourselves to deal with our crisis.

5. To expand our earning power to the necessary extent, and in quick enough time, is a formidable task. Our exports to North America, and indeed to the whole of the world outside the sterling Commonwealth, fall a long way short of our needs; and we are tending to lose ground in the markets which are open to competition.



6. Furthermore, the make-up of our export trade, and the opportunities for expansion of sales in the different parts of it, adds particular problems to the task. Broadly speaking, one-fifth of our exports consist of industrial materials, including semi-manufactures (such items as iron and steel, coal, cement, chemicals, non-ferrous metals); three-fifths of miscellaneous consumer goods (notably textiles, motor cars, bicycles, leather and rubber manufactures); and one-fifth of capital goods properly so called. It will clearly be difficult for us in the present circumstances of stringency to expand the first class at all substantially: the bulk of the items in the second class have now to face a buyers' market almost everywhere: the third group represents the only one for which a large unsatisfied demand still exists in export markets. It follows that if the total increase needed had to be concentrated in that particular sector an expansion of as much as 25 per cent. would be necessary. That is, of course, an over-simplification: some expansion in exports in the first two classes will undoubtedly prove possible, though this may involve some difficult decisions of policy in certain fields (*e.g.*, in respect of such materials as coal, cement, &c.). In general, however, it is clear that a substantial expansion in exports can only be achieved in engineering goods, particularly in the sector of capital goods—with all that that implies in terms of steel availability and the concentration of our engineering resources on the export field.

7. Paragraphs 8–13 below set out the proposals in brief, and the Annexes to this paper give them in more detail. They should be read against the background of the rearmament programme. My colleagues are aware of the latest position on this from the memoranda which have been circulated and which were approved by the Cabinet on 14th January (C. (52) 4 and 5 and C.C. (52) 3rd Conclusions, Minute 2). The measures taken to spread the programme over a longer period will be one of the factors helping our recovery.

8. The most urgent and the most important of the problems facing us is that of *coal*. We must rapidly increase our production for many reasons: it is needed to provide an adequate basis for our own industry; it is needed as a direct export; and in the eyes both of America and Europe the solution of this problem is a touchstone of our ability to handle our own affairs.

9. The most promising source of increased exports is in the *engineering and metal-using industries*. The additional steel we now hope to get from the United States will permit of an expansion of output in the later part of this year. But even after some slowing down of the defence programme these industries will have to bear this year an increased load of defence production, so that, but for this additional steel, exports from these industries would have fallen. The extra steel will enable this fall in exports to be off-set and produce some net increase in the current year. It will, moreover, provide a firm base for a much higher volume of exports next year. Quicker results cannot be expected because the bulk of the American steel will not arrive until the second half of this year and capital goods take a long time to make. We must make reductions in investment in plant and machinery (see Annex I) and in durable consumer goods (see Annex II) to set free resources for export.

10. The reduction in *industrial building* (of which further mention is made in Annex I) will reduce the demand for building steel, and for machinery which would have been needed if the programme had been maintained. It will also enable defence works, and the provision of new houses, to be increased within the present size of the building industry. Proposals for settling the outstanding points are now being put to the Economic Policy Committee.

11. The President of the Board of Trade proposes certain *restrictions on hire-purchase*, of which an account is given in Annex III. This will have the effect of reducing home demand for certain types of product. The details of his proposals are about to be considered by the Economic Policy Committee.

12. In Part I of the Confidential Annex\* will be found details of the *reform of purchase tax and Utility* which we recommended in our earlier Report (paragraphs 23 and 24 of C. (51) 48).

13. The remaining measures are *reductions in Government expenditure*, which can only be achieved at the cost of considerable sacrifice. Our proposals are contained in Annex IV. Their purpose is to reduce the demand made by the

\* The circulation of the Confidential Annex has been restricted.

Government itself on our resources, and thus contribute towards the general free-  
of our economy from the excess of demand, which is drawing in too many  
imports and holding back goods we ought to be exporting.

14. In paragraph 39 of C. (51) 48 the Sub-Committee refer to a possible White Paper on the wage-price problem which the Minister of Labour and National Service and I are preparing. We will consult our colleagues as to the general lines which it would take. Meanwhile I would ask my colleagues' agreement to my referring to it during the Debate as something which will shortly be issued.

15. All these measures, in addition to those taken already by import cuts and by our new monetary policy, and those to be announced in the Budget, form part of a general policy. They will not be fully effective except in combination, and they must therefore be considered as a whole. We cannot force other countries to buy our goods, nor can we force our own manufacturers through detailed controls to export them. But by reducing home demand by the Government, the investor and the consumer, we can create the climate which is necessary if our exports are to be expanded. Our exporters will still have to make use of the resources we shall make available to them—but unless the resources are made available, their task will be impossible. If they cannot carry it out, we shall have to reduce our imports to match our income, with disastrous results to production, employment and food supplies.

R. A. B.

*Treasury Chambers, S.W. 1,  
19th January, 1952.*

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## ANNEX I

## THE INVESTMENT PROGRAMME

A. *Building Work*.—The recommendations of the Investment Programmes Committee for 1952, after taking into account the increase in the housing programme approved by Ministers, would give a programme of new building work for civil purposes about 5·5 per cent. less than was done in 1950. If defence new building work is taken into account, the programme will be 3 per cent. more than in 1950, and 7 per cent. more than in 1951. This programme of new building work is, however, about £45 million more than could be achieved with the steel supplies under the current level of steel allocation, unless the requirements of building steel have been much overstated. The building programme, therefore, allows room for the transfer of resources from steel using building work to types of work which use less steel. There is a number of claims for increases on the civil programmes on which decisions have yet to be taken. Effect will be given to the decisions through the control of building licences.

B. *Plant and Machinery*.—The objective set was to reduce investment in plant, machinery and vehicles in 1952 by £100 million below the level achieved in 1950. Compared with that year there is, however, a net increase in the investment in plant and machinery in the fuel and power group of programmes, and also for defence purposes. With the exception of a saving on shipbuilding, due to reduced supplies of steel, no other large savings can be made in the controlled sectors. The Investment Programmes Committee, therefore, proposed that the reduction should be sought in the following fields:—

	£ million		
	at end 1951 prices		
	1950	1952	1952 as a percentage of 1950
Public service and commercial goods			
vehicles ... ..	132	75	57
Passenger cars ... ..	128	59	46
Agricultural machinery ... ..	54	37	68
Manufacturing industry ... ..	310	271	87
Miscellaneous plant and machinery ... ..	70	61	87
Sub-total	694	503	73
Other civil programmes ... ..	461	462	100
Plant and machinery for defence purposes ...	18	105	583
Total:	1,173	1,070	91

The entire reduction has, therefore, to be found from the five items in the upper part of the table, on which substantial reductions have to be made. These will not come about unless the necessary measures are taken. No single measure has been found which will achieve these reductions. An elaborate system of direct physical control is not practicable. A combination of measures is, therefore, the only course. The following could be used for this purpose:—

- Discussion and agreement with industry to raise the level of exports by voluntary action reinforced by a declared intention to discriminate in the distribution of scarce materials in favour of firms with a rising export performance. This would be the intensification of a well known and well understood procedure.
- Limitation of supplies to the home market by statutory orders in exceptional cases.
- Tightening up of credit policy.

Of these, (c) is already in operation; it is suggested that (b) should be applied to parts of the capital goods field to reinforce the measures under (a). (a) will have to be restated in vigorous form, and applied sternly through the steel allocations. The proposals do, however, involve the possibility of a reduction in the total output of cars and commercial vehicles, because it is probable that exports of these cannot be much increased.

One further expedient is discussed in Part II of the Confidential Annex.\*

\* The circulation of the Confidential Annex has been restricted.

## ANNEX II

## DURABLE CONSUMER GOODS

The Cabinet approved on 21st December a recommendation put forward in our first report (paragraph 27 of C (51) 48) that the level of production of consumer goods for the home market by the metal-using industries should be cut by £60 million a year at 1950 prices.

2. The stringency in steel supplies has meant that allocations to industries producing metal consumer goods have had to be put at a very low level for the first quarter of 1952. It is calculated that, on the basis of such a level of steel allocations, the production of these industries for the home market will be reduced by an amount in excess of the £60 million figure postulated by the Cabinet—something like £80 million a year at 1951 prices or, say, £72 million at 1950 prices. And it appears most unlikely that, even taking into account the increase in steel supplies which we may now expect from the United States, it will be possible, given the scale of other urgent demands for additional steel, to increase the allocation of steel to these particular industries to a point which would mean a reduction in production for the home market of *less* than the £60 million target.

3. We shall rely on voluntary arrangements with industry to devote to exports an adequate proportion of their output. This is likely to succeed, but if it fails exceptionally, we may have to impose statutory limitations on supplies for the home market.

## ANNEX III

## HIRE PURCHASE

1. As part of the policy of agreed restrictions of credit the Capital Issues Committee are withholding permission for the raising of money for hire purchase business, and the clearing banks are restricting and will restrict further the finance which they make available for that purpose. These limitations of credit do not, however, affect those suppliers who are able to finance hire purchase operations out of their own resources.

2. Hire purchase transactions in certain goods are already regulated by a Board of Trade Order. But this Order applies only to price-controlled goods (and not, therefore, to goods like radio and television sets) and is not intended to restrict the volume of hire purchase business. Inasmuch as a range of metal-using consumer goods can be obtained in hire purchase, often on very easy terms, it is recommended that, as a complement to the other measures which are being taken to make credit restriction more effective and to divert resources from home consumption and investment, restrictions should be placed by means of a Board of Trade Order on hire purchase transactions in respect of goods such as motor vehicles, bicycles, radio and television sets, electrically operated domestic appliances and apparatus (*e.g.*, vacuum cleaners, polishers, immersion heaters, refrigerators) and office furniture. For all these goods fairly stringent terms, namely a minimum initial deposit of 33½ per cent. of the cash price and a maximum repayment period of eighteen months will be prescribed; at present most transactions take place on terms of a deposit of 20–30 per cent. and a repayment period of eighteen months to three years.

3. It is not proposed that any additional restrictions should be placed on the hire purchase of goods like domestic furniture, cookers and perambulators.

4. This proposal will not involve legislation; the necessary restriction can be imposed by Order. This would be published on the day following any statement in the House and in order to avoid forestalling it would come into force at once.



## ANNEX IV

## CIVIL EXPENDITURE

The general policy which the Cabinet approved (C.C. (51) 19th Conclusions, Minute 3) is that purely civil expenditure should be reduced substantially below the figure for 1951-52. This would still leave the total of Civil Estimates (which contain a good many defence and semi-defence items) well above last year's figure and would contribute nothing to meet the inevitable increase in Service Estimates. On the other hand, costs will be higher next year than this by about 10 per cent.; expenditure over the range of civilian expenditure has been increasing over recent years by something approaching £100 million a year, in spite of strong efforts to check it; it is therefore not a negligible achievement to keep it steady.

2. The figures in the table at the end of this paragraph show how far we are towards attaining this result. The first two columns correspond to those in paragraph 34 of the Sub-Committee's Report (C.C. (51) 48), subject to some adjustments which have been made to give a truer picture. The first column shows the revised Estimates for 1951-52. The second column shows what expenditure would be in this field, if there had been no change in policy (except so far, of course, as Departments had already taken account of projected economies in their first submissions to the Treasury of next year's estimates). The third column shows, not the final figures—these cannot be given at a moment when the scrutiny of estimates in the Treasury is in full swing—but the latest estimate available. The figures for the National Health Service and education take account of the important proposals made below on those services. The remaining figures take account of as much pruning of the estimates as the Treasury has already done, but it must be realised that allowance has had to be made not only for decreases but for some important increases: for example, the increase by about £15 million of Civil Service pay due to the recent agreement between the Treasury and the Staff Side. The economies secured are therefore appreciably greater than the net difference of figures would suggest.

TABLE  
(£ millions)

				1951-52	1952-53	
				<i>Revised Estimates</i>	<i>Before Cuts</i>	<i>Latest State</i>
National Health Service	...	...	...	398	415	389
Education	...	...	...	228	251	235
Other Social Services	...	...	...	418	437	437
				<hr/>		
All Social Services	...	...	...	1,044	1,103	1,061
Food subsidies	...	...	...	410	410	410
Other services	...	...	...	460	454	449
				<hr/>		
Total Social and Administrative	...	...	...	1,914	1,967	1,920

3. These results cannot be obtained without important measures affecting the social services for which we wish to ask our colleagues' specific approval. For the rest it is sufficient to draw their attention to the work which has been done, both by Departmental Ministers (who have made great efforts on their own account to secure economy) and by the Treasury. Examples are the Estimates of the Ministry of Works which show a decrease in every Vote compared to last year; a saving of £1·2 million on Information Services as a result of an enquiry conducted by the Lord Privy Seal; and a decrease in the numbers of the Civil Service of about 10,000, which should be accomplished during the next six months, to be followed by a further decrease of 10,000 to 15,000 over the following six months, if the necessary restrictions of services can be accepted.

4. The important measures which I propose concern the National Health Service and education.

5. The following additional charges in the National Health Service are proposed (aiming at the savings shown in a full year's operations):—

	£
(a) A charge of 1s. for each prescription form ... ..	12,000,000
(b) Charge for certain hospital appliances ... ..	500,000
(c) A charge under the General Dental Service of £1 (or the full cost if less) for all treatment other than dentures (for which a charge is already made), except that no charge would be made to children and expectant or nursing mothers ... ..	7,000,000
(d) Increased charges for "amenity" beds in hospital ... ..	250,000
(e) A new power to local health authorities to charge for the use of day nurseries having regard to the means of the parents ... ..	500,000
Total of increased charges ... ..	20,250,000

A further reduction in the cost of the service, not by way of economy or increase of income from charges, but by increase of general revenue, can be secured by an increase of 2d. per insured person in the contribution towards the cost of the National Health Service made by the National Insurance Fund, to be met by an increase of 2d. in the employee's share of the stamp ... ..

9,000,000

Total ... .. 29,250,000

6. Legislation will be required for all these proposals, except for the charge on prescriptions for non-hospital patients and the increased charges for amenity beds. As my colleagues know, the proposal is that a Bill should be introduced immediately after the announcement and passed as quickly as possible in order both to secure the most revenue from the charges and to reduce the amount of forestalling. By this means we should not be far short of obtaining a full year's revenue in 1952-53 from all the charges; but only two-thirds of a year's revenue from the increased contribution from the National Insurance Fund, since it takes longer to make the new stamps available and the danger of forestalling is not present.

7. Special arrangements will be necessary to provide for refund or exemption of the charges payable by the recipients of National Assistance, War Pensioners and (in the case of the Dental Service) by children and expectant or nursing mothers. Suitable arrangements are being worked out.

8. As regards education, we propose the following economies:—

#### *England and Wales*

	£ million
(a) 5 per cent. reduction in estimated L.E.A. expenditure (Main Grant services) ... ..	8.5
(b) Reduction in the administrative costs of the School Meals Service ... ..	0.5
(c) Reassessment of the provision for the payment of balances of grant to L.E.A.'s for the current and earlier years ... ..	3.0
(d) Reassessment of the estimated liability for teachers' pension payments ... ..	0.8
(e) Reduction in direct grants and other charges in the Ministry's Estimates ... ..	2.0
Total (England and Wales) ... ..	14.8

#### *Scotland*

(f) Goschen proportion of above ... ..	2.2
Total (England, Wales and Scotland) ... ..	17.0



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9. The most important item here is the 5 per cent. reduction in estimate expenditure by the Local Education Authorities. The Minister sent out a circular some time ago asking them to frame their estimates accordingly and she hopes to get good results from it. The reduction in the cost of the School Meals Service will be obtained by economies in administration. The Minister hopes to increase this figure later in the year. In view of this we decided against an increase in the charge for School Meals, although the price of food alone has gone up by about 1d. per meal since the Labour Government increased the charge, and overheads have also gone up by about 1d. a meal. If the Minister finds it impossible to reduce overheads any further, or if the price of food goes up again, we recommend that the possibility of increasing the charge should be reconsidered. Items (c) to (e) are technical adjustments or the accumulation of various minor savings. Under the "Goschen" formula Scottish expense on Education is, by Statute, a regular proportion of English expenditure.

10. We have considered whether to legislate to increase the rate of contribution for teachers' superannuation, since the Scheme is now in deficit. We think the present moment (when a further claim by the teachers is before the Burnham Committee) to be inopportune for taking this action, but the Ministers concerned will raise the matter again later in the year. Meanwhile we can take credit for no saving under this head.

11. I should mention an important saving by the Minister of Education which does not appear on the face of the Budget. She proposes to cut her investment programme over the next seven years by about £90 million. She will do this mainly by using secondary schools for a larger number of children and by increasing the age at which children transfer from primary to secondary schools. The Secretary of State for Scotland proposes to take corresponding, though not identical, measures. £7.5 million of the saving for the two countries will accrue in 1952-53. As school building is met by advances from the Local Loans Fund, which are over a long period of years repaid with the help of Exchequer grant over the period of the repayment, this saving appears "below the line" and not in Estimates: but it is none the less welcome for that.

## CONFIDENTIAL ANNEX

## PART I

## PURCHASE TAX AND UTILITY

At present almost all Utility goods are free of Purchase tax. This means that there is little manufacture of goods immediately above top Utility in untaxed value, resulting in a gap in production (the "blind spot") and harm to exports. It also means discrimination against imported goods of Utility type, which pay full Purchase tax, and we have been strongly attacked for this at meetings of G.A.T.T.

2. The Douglas Committee was set up last summer to examine these problems and it has now reported recommending a D Scheme. This Scheme would replace the automatic exemption from Purchase tax of Utility goods by a tax-free deduction (D) to be made from the wholesale value of all goods, Utility or not, in those classes—but only in those classes—where Utility schemes exist (*i.e.*, textiles, clothing, footwear and furniture). Tax at existing standard rates would be charged on that part of the wholesale value which exceeds D. There would be different D's for different types of article such as shirts, suits, vests, &c. Legislation would be necessary on Finance Bill lines.

3. This scheme would solve the import problem, as imported goods would have equal benefit from the tax-free deduction; and it would remove the "blind spot" by providing a gently graduated rate of tax in place of the present jump from tax-free top Utility to fully-taxed non-Utility. I therefore recommend its adoption.

4. Although the normal place for such legislation would be the Budget and Finance Bill, there are compelling reasons for dealing with it earlier. A major factor in the present textile recession is uncertainty about possible Purchase-tax changes. Removal of the blind spot is the only immediate help we can give to textile exports and we should give it at once. It is now generally assumed that the Douglas Report has been received, and intelligent guesses have appeared in the press as to its contents; pressure to publish it as soon as the House reassembles will be very great. Publication must be quickly followed by action, otherwise there would be serious dislocation in industry. I therefore recommend publication of the Report on about the 2nd February, the necessary Ways and Means Resolution in the House of Commons about ten days later, the scheme to come into effect a few days after that, and the Bill to be introduced and passed into law before Easter.

5. A few special points about the D Scheme need mentioning—

- (i) D's will be so fixed as broadly to maintain existing revenue. This will be substantially achieved if D is set, in each group, in such a way that 50 per cent. of the transactions in that group are tax free.
- (ii) Although more expensive Utility goods will bear some small tax, the effect on the cost of living will probably be negligible since the purchases of working-class families are almost wholly in the lower Utility grades which will remain tax free.
- (iii) The future of Utility itself is being separately considered by the President of the Board of Trade. If, as seems by no means improbable, Utility as we know it disappears, the D principle must still, for revenue reasons, be confined strictly to the field where Utility previously existed.
- (iv) Standard rates of Purchase-tax will remain the same as at present for the purposes of the D Scheme, although the introduction of the Scheme would not prevent their being altered, or the whole Purchase-tax system being revised and broadened, for other reasons, in the future.
- (v) For special reasons the Scheme will not initially be applied to furniture. But powers will be taken to extend it to furniture after discussion with the furniture trade.
- (vi) In grouping articles for separate D's, we must try and avoid, except in the case of wool, having different sets of groups for articles made of cloth of different fibres. But linen is a special case, since, if grouped with cotton articles, all linen articles would be taxed, and Northern Ireland has a special interest in this. The question is being discussed with the Government of Northern Ireland.



## PART II

## FISCAL MEASURES TO CONTROL INVESTMENT IN PLANT AND MACHINERY

Various ways of restricting investment in plant and machinery by fiscal means have been considered. The only one which is practicable and not open to insuperable objections would be the suspension of the Income Tax Depreciation Allowances on new purchases of plant and machinery for, say, the next three years, on lines recently followed by the Canadian Government. Although, by itself, this would have only a modest effect, it would be a clear earnest of the Government's intentions, and, in conjunction with the other measures proposed, we think it would be of real value in present circumstances.

2. The suspension of the allowances would have to be operated on a non-discriminatory basis, both on administrative grounds—the Inland Revenue have not the staff to operate a discriminatory scheme—and because once discrimination were admitted in one case, it would lead to pressure for discrimination elsewhere, and the effect of the measure would largely be lost.

3. Obviously the suspension of the allowances would be criticised by industry on various grounds, *e.g.*, that it was imposing an additional burden on the Defence effort, on export industries, on shipping, oil and other British enterprises operating overseas, and that it was a breach of the accepted principle that industry should only be taxed on its true profits, computed after allowance of the full costs incurred in earning the profits, including depreciation costs. This principle was recently reaffirmed by the Tucker Committee.

4. The proposal could be announced in February to operate from 6th April next, the same date as applies for the suspension of the initial allowance.

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Copy No. 70

C (52) 9

19th January, 1952

**CABINET**

**SERVICE ESTIMATES 1952-53**

**WORKS SERVICES**

**MEMORANDUM BY THE CHANCELLOR OF THE DUCHY OF LANCASTER**

In giving general approval to the Service Estimates for 1952-53 as set out in my paper C (52) 4 the Cabinet invited me to examine again the possibility of some further reduction in the total provision of £129.05 million for works services. I have now gone into this question in a good deal of detail with the Departments and I am setting out my conclusions in this note.

2. For the reasons set out in this Memorandum I do not believe that it is practicable to obtain any substantial economies in the methods the Services intend to employ in carrying out their respective works. I am also satisfied that, subject to the possibility of relatively small savings in using existing storage in place of building new storage, the works programmes of the Services are necessary concomitants of their production and operational programmes. If it is desired to make further reductions in the Service estimates, I think the only way of doing this is to impose arbitrary estimating cuts on the figures for works services, basing these cuts on the expectation that some of the Services will not be able to spend on works the full amounts now standing in the estimates. A further justification for a cut of this kind in the Air Ministry's estimates may be found in the possibility that the United States may agree to pay for a larger share of the work undertaken on a fifty-fifty basis for the United States Air Force. The estimates at present stand £3.3 million higher than the saving the Chancellor of the Exchequer hoped to make. If it is decided to make arbitrary cuts in the estimates, I think that at least half should fall upon the Air Ministry, whose works programme is much the largest, and the other half should be divided between the Admiralty and the War Office.

I now give the results of my detailed investigation.

**Storage**

3. Of the Admiralty provision for storage, amounting to £1.8 million, the only questionable item is the proposed new Victualling Store at Botley to serve the Portsmouth base. This scheme was approved last May, and the total estimate is now nearly £800,000, of which it is proposed to provide £200,000 in 1952-53 and £300,000 in 1953-54. The scheme has undoubted advantages from the point of view of efficiency and economy in administration. But it is an example of the type of storage requirement which might conceivably be met by other means. If it is decided, for instance, to run down stockpiles, a contribution to the Admiralty requirement for Victualling Store accommodation, and to similar needs of the other Services, may be thrown up. It would be wrong to rate the possibilities of economies in this direction high. The Ministry of Works have acquired a good deal of storage accommodation for the Ministry of Food. If food stockpiles were drastically reduced, some of this would be redundant. But this accommodation is in small lots widely dispersed. This exactly suits the Ministry of Food, but it is correspondingly inconvenient and uneconomical for Service Departments, who need their stores concentrated in large depots with easy access. I suggest, however, no



final decision should be taken to proceed with the Botley Scheme until alternative possibilities have been further explored. This investigation could be quickly done by the Admiralty and the Ministry of Works. I would have suggested the same course for Army storage of stores and spares. But I understand that all the Army expenditure under this head is on building which has already been started. It would be uneconomical to stop this; but the War Office should not undertake any new building commitments for this purpose without prior consultation with the Ministry of Works.

4. The biggest storage item in the War Office estimate is £1.3 million for the storage of tanks. At first sight it might be argued that this storage is unnecessary, as tanks in reserve for an army in the field are left in the open. But they are continually serviced and looked after by military personnel. There is no possibility of finding personnel to do this if reserves of tanks in this country are left in the open; and the War Office maintain on practical experience that the deterioration would be serious and that the tanks would not be ready for service when wanted. I find this argument convincing and I could not recommend that this item should be cut out.

### Housing

5. As regards barrack accommodation, there is very little provision by any of the Services for new work to provide new barrack accommodation in place of old-fashioned and dilapidated structures: there is, in fact, a considerable slowing-down in the programme of barrack modernisation, as is appropriate to our impoverished condition. There is a good deal of work to be undertaken in providing entirely new accommodation for personnel at *new* or *expanding* stations, but this is inescapable and in general the building will be in temporary types of construction.

6. As regards married quarters, I accept the need, on grounds of recruiting and morale, to continue with the present policy of meeting the married man's requirements so far as is reasonably possible. Subject to the usual examination in detail, therefore, the general scale of provision should stand. The standards of construction, moreover, are not on the whole extravagant. Housing for ratings and other ranks is broadly in line with Local Authority standards; and, if, as I understand, officers' quarters tend to be rather bigger and better than comparable civilian houses, I am sure that the necessary economies will be effected as a result of the current discussions between the Treasury and the Service Departments.

### Airfields

7. I have examined the Departments closely on the standards adopted for the construction of runways. As regards *bearing strength* there can be no hard and fast rule: the subsoil conditions are examined closely in each individual case so that the minimum provision need be made. There are theoretical formulæ related to subsoil conditions and construction materials, the all-up weight of the aircraft, &c.; but in addition practical tests are invariably carried out on the site with special machinery designed for the purpose. No useful comparison can be made with runways at the manufacturers' works; these are designed for unladen aircraft, which are later flown off to R.A.F. aerodromes for their testing under operational weights. Even so, the Air Ministry standards are, if anything, rather below those adopted by British manufacturers; and they are not extravagant in relation to those of comparable civil airfields both at home and in America. I am satisfied that the Air Ministry are not adopting excessive precautions: indeed they are now deliberately modifying the theoretical safety factor in initial construction, trusting to the maturing strength of the cement to cover this margin of safety in the course of time.

8. As regards *length* of runways, the general standard is 2,000 yards for Fighter stations and 3,000 yards for stations to be equipped for Washingtons (B. 29's) and Valiants. I am satisfied that these standards are reasonable; and it is satisfactory to note: (a) that Canberra bombers are to be accommodated to the Fighter (2,000 yards) standard and (b) that the 1952-53 programme provides for only three airfields to be constructed to the Valiant standard (3,000 yards). I have enquired about the very heavy cement requirement for the airfield construction programme, but the Ministry of Works confirm that in their view there will be no insuperable difficulty on this score.

9. I am less wholly convinced about the Admiralty proposals to construct runways at two stations in excess of the R.A.F. Fighter standard, one of 3,000 yards and one of 2,500 yards. It is arguable that their runway requirements on land need not be greater than those of the R.A.F. (even if, as in these cases, all the pilots will be under training). I think that this question should be further examined and I commend it to the consideration of the Minister of Defence.

10. In general, I am satisfied that the size and nature of the airfield programmes are reasonable in the circumstances. The programmes are not outrunning the latest forecasts of aircraft deliveries—indeed they are slightly behindhand. The plan of work is ambitious, but a substantial discount for shortfall has already been made and I have no evidence to justify a further cut, on the intrinsic merits of the case.

### Overseas

11. Apart from married quarters, the main expenditure arises (a) from N.A.T.O. commitments and (b) from the problem of deployment in the Middle East.

#### 12.—(a) *N.A.T.O. Commitments*

The War Office have provided £5 million for the new base and lines of communication (through Antwerp instead of through Hamburg) required to support our Forces in Germany. Work has already started, by agreement with the Belgians who are contributing the land and 20 per cent. of the cost, and the commitment seems inescapable. (I recommend, however, that, even if funds prove to be available, no work should be done in 1952–53 on the married quarters which we are pledged to construct as part of the bargain with the Belgians.) The War Office have also provided £250,000 for work in connection with a base at Leghorn, with a forward area near Venice, required to support our troops in Austria and Trieste in war: work on this has not yet started. I think we should be clear that the substantial expenditure involved on an Italian base is quite essential on strategic grounds and having regard to our economic difficulties.

#### 13.—(b) *The Middle East*

Both the War Office and Air Ministry have large schemes of construction in Cyprus towards which they have provided £500,000 and £250,000 respectively in 1952–53. The Air Ministry also contemplate heavy expenditure on airfields and ancillary construction at various stations, some existing and some new, in Aden, Jordan and Iraq for the deployment of Canberra Squadrons to be formed in the next year or two. There can be little doubt that considerable expenditure of this type will be required in the Middle East in the fairly near future. But I suggest that consideration of particular schemes involving long term permanent construction should await a general review of Middle East policy. Moreover, even if it is confirmed that these projects must be undertaken, it may be that in the immediate future, when it is so important to reduce overseas expenditure, it would be wiser policy to delay starting work, although a later start might mean a somewhat higher cost due to an intensified rate of building.

### Maintenance

14. The total of maintenance expenditure at home and abroad for all three Services amounts to some £26 million. Any substantial reduction in maintenance expenditure, however, means neglect of existing assets and is therefore wasteful in the long run. I do not recommend it.

### General Conclusions

15. As a result of my review, I am satisfied that the Departments have made genuine and strenuous efforts to reduce to a minimum the works expenditure which, to a very great extent, is an inescapable concomitant of the rearmament programme. The Admiralty have been particularly modest in their demands. It follows from the detailed examination I have made that I can find little or no slack which can be taken up in the estimates, and that the Works Programme does no more than



match production and operational requirements. The only substantial reduction which can be made is by an arbitrary cut of the kind I have suggested in paragraph 2. I should, however, refer again to the £7 million net in the Air Ministry's estimate on account of work for the United States Air Force. In the greatly improved atmosphere of our relations with the United States and the willingness of the United States Government to find ways and means to help us, I suggest it would be reasonable to re-open the fifty-fifty agreement and ask the United States to carry the whole or at any rate the larger proportion of the expenditure.

SWINTON.

*Office of the Chancellor of  
the Duchy of Lancaster, S.W. 1.  
19th January, 1952.*

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TOP SECRET

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C. (52) 10

19th January, 1952

## CABINET

### THE BALANCE OF PAYMENTS SITUATION

#### MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

The gold and dollar reserves continue to fall at an alarming rate, and I must inform my colleagues that, unless we tackle this situation with great resolution, there is a real likelihood that by the middle of the year we shall not be able to hold the pound at \$2.80.

2. In the last quarter of 1951 the dollar deficit was \$940 million (£337 million). Since the beginning of this month we have lost \$225 million. The latest forecast for the loss in this quarter is \$700 million, and this will probably prove too low. Even on this estimate, however, the gold reserves will be down to \$1,400 million (£500 million) by the end of June, and this is much the same as the level at which they stood on the day of devaluation in September 1949.

3. Unless we can stem this tide, it will swallow us up, and we shall reach a point at which we can no longer buy the basic food and raw materials on which this island depends, or keep together the sterling Commonwealth as a coherent financial system.

4. We still have time to organise ourselves to deal with this emergency, and all the work which we are doing is laying the foundations for recovery. But there is not much time, and we must use it to full advantage.

#### The Reasons for the Deterioration

5. The latest estimates for the year 1952, which have been agreed between the Treasury and the Departments concerned, and which incorporate all the decisions which are asked of the Cabinet on internal policy, and the effect of the United States steel, are set out in Tables I and II. They show the United Kingdom balance of payments with the non-sterling area as follows:—

#### *United Kingdom Balance of Payments with Non-Sterling Area in 1952*

	(£ million)			<i>Estimate of</i>
	<i>First Half</i>	<i>Second half</i>	<i>Total</i>	<i>October 1951</i>
Imports ... ..	1,022	1,061	2,083	2,281
Exports and re-exports	685	740	1,425	1,510
Invisibles (net) ...	+ 28	— 28	...	+ 26
Defence Aid ... ..	+ 113	+ 12	+ 125	+ 25
Deficit with non-sterling area ... ..	— 196	— 337	— 533	— 720
41746				B



6. It is a distressing fact that although we took action to reduce imports and other external expenditure by £350 million, although we are taking substantial steps to free more resources for exports, and although we are now allowing for £100 million of United States defence aid in the first half year and the one million tons of United States steel, our latest estimates show a reduction in the prospective deficit with the non-sterling world (which is the nub from the point of view of the reserves) by £200 million.

7. Two factors have been responsible. On the import side, prices have risen against us (*e.g.*, cotton, non-ferrous metals), and there have been increases in volume too (*e.g.*, steel, coarse grains). On the export side, the general conditions (for example in textiles) are at present unfavourable, and—much more serious—our competitive position in certain industries appears to be deteriorating. Except in the markets of the sterling Commonwealth, where there are inflationary conditions and our exports are in a privileged position, we are tending to lose ground in many lines of business.

8. Normally, the other sterling area countries have a surplus with the non-sterling area (and a deficit with us). That surplus offsets our deficit with the non-sterling area. But on the data which they have submitted to the Commonwealth Finance Ministers Conference, they will be in deficit with the non-sterling area in 1952 to the tune of £120 million—an estimate which is hardly surprising, for they were in deficit of £156 million in the second half of 1951 alone.

9. Thus, with a United Kingdom deficit of £530 million with the non-sterling area, and with the other sterling area countries in deficit there of £120 million, the sterling area as a whole is in deficit of £650 million in 1952. And as our reserves at end-December were only £835 million, the implications are clear.

### Commonwealth Action

10. I proposed to the Commonwealth Finance Ministers that the only possible hope of success could come if the sterling area as a whole could get into balance with the rest of the world in the second half of this year. That is the only way to stop the drain.

11. I accordingly proposed a series of targets for each country (set out in Table III) the net effect of which was that the United Kingdom would reduce its deficit with the non-sterling world to £100 million in the second half (*i.e.*, £200 million a year) if they would turn their deficit into a surplus of £200 million a year. The targets set the individual countries formidable problems, but I am hopeful that they will accept them, and take immediate action accordingly.

### United States Aid

12. We can, in my view, frame our policy on the assumption that we shall receive some economic support from the United States in the second half of 1952. It is obvious that the United States could not take major action to help us, even if the Administration and we ourselves wished it, before the Presidential election. But we are certainly entitled to a share of such funds as may be voted for economic support in the Mutual Security legislation which will shortly be presented to Congress for the United States fiscal year 1952–53. It has always been understood that our defence programme is subject to burden-sharing, and the report of the Temporary Council Committee of the North Atlantic Treaty Organisation made it quite clear that it would be impossible for our defence programme to be effectively carried out if our dollar deficit is not covered. From the 1951–52 Mutual Security Act appropriations we expect to receive \$300 million (£107 million), and the estimates for the first half of this year incorporate this. It is entirely uncertain how much money Congress will vote in the next few months, and how large will be our share; we shall not know until it is too late for us to alter our own policies for the second half-year. A figure of £80 million for the second half-year, including, *e.g.*, United States purchases of military equipment in the United Kingdom, seems a reasonable figure to take as a basis—it would mean that we were getting 50 per cent. more aid in 1952–53 than in 1951–52. This is, of course, all highly uncertain, but we may not get as much during the second half-year, and we certainly cannot rely on getting more.



### Course of Action

13. In a situation like this, our own action is what counts. We must pay our way, and we must be seen to be paying our way.

14. This must be the first and central objective. For if we fail in this, all other objectives—defence, the strength of the Commonwealth, full employment, social welfare, better food—will collapse like a house of cards.

15. The dynamic force which can put us right is our earning power. We have no hope of getting straight unless we can make our exports plentiful and competitive across the whole range of products, by price and by quality and by delivery date.

16. This is of course the reason for the series of measures dealing with the internal economy which I am proposing in another paper. Every measure which we can take to lighten the load on the internal economy directly or indirectly helps to make the economy more flexible and to support our exporters.

17. But it will take time for these measures to become effective, and the reserves are running out. We therefore should take further emergency action against imports.

### Direct Action on Imports

18. The United Kingdom's part in the proposals for concerted Commonwealth action is to reduce our deficit with the non-sterling world in the second half of this year to £100 million (*i.e.*, £200 million a year). This is to be offset by a roughly equal surplus with the other sterling area countries, so that the United Kingdom would be in overall balance, or better, in the second half of 1952. I explained in Cabinet last week that this would mean difficult decisions.

19. The estimates before us indicate that our deficit with the non-sterling world in the second half of 1952 may be of the order of £337 million. These deficits are margins in a very large turnover, but there is no reason to suppose that this is an over-estimate. A 5 per cent. rise in import prices would add £100 million to our non-sterling import bill; the world market for many of our most important exports is in an unsatisfactory condition, which offers little scope for a rapid increase in earnings.

20. Taking the figure of £337 million in the half-year as the starting-point, we need to improve the position by £237 million in order to reduce the deficit to the prescribed maximum of £100 million. Many of my Commonwealth colleagues were sceptical about their ability to improve their position to the required extent, and some may fail. One would indeed like to have a margin on the right side, but I fear this is impossible. Against the £237 million, we can put £80 million (as in paragraph 12) for United States aid, and although the original estimates already allow for all the internal measures which we are taking to stimulate exports, so that we cannot properly allow more on that score, we may find that deflationary action in the other sterling area countries will have some effect in diverting our exports to non-sterling destinations. But we cannot allow very much for this, and it is clear that a substantial reduction in our imports would be required.

21. After weighing the various factors involved as best I can, I have come to the conclusion that it is my duty to put forward a programme of import cuts designed to yield a saving of £150 million, from non-sterling sources, in the year 1952, of which about £100 million would fall in the second half-year.

22. The 1952 import programme, revised by the Departments to take into account the latest prices and availabilities and making allowance for all previous cuts and for the effects of anti-inflationary measures, is set out in Table IV. Substantial reductions have already been imposed, and the issue which is now presented is how further reductions should be distributed between the stocks which have been accumulated as a measure of defence preparedness, the current levels of food consumption, and the raw material supply for industrial production and transport. In my view, the very last resort would be to cut the raw material intake for industry, for they would get us into a spiral from which there is no escape—by creating unemployment and destroying productivity, it would deprive us of any prospect of working our way out of our difficulties. The £150 million programme which I am presenting therefore includes no proposal which would seriously damage our basic industrial potential, for I think we must regard this as paramount.



23. The review of possibilities follows:—

	£ million
<i>Tobacco.</i> —Reduction in purchases from North American 1952 crop to 100 million lb. Last year the purchase was 250 million lb. and this means consuming stocks heavily in 1952–53 with risks that prices will go against us in 1953. This will not involve reduced consumption ... ..	16
<i>Petrol.</i> —The only direct way to save petrol is by rationing, which is administratively cumbersome and expensive. In any case there is some doubt whether it would in fact save much foreign exchange. So I advise against it ... ..	...
<i>Films.</i> —There is an agreement in force with the United States film industry which we cannot set aside. So we cannot do anything in this ... ..	...
<i>Softwood.</i> —Our present plans to build 230,000 houses in 1952 and 260,000 in 1953 will need additional imports in 1952 of 90,000 standards (£6½ million) over and above the import programme. There is a strategic stockpile of 215,000 standards, in addition to the commercial stocks (estimated at 400,000 standards at end-1952). By using the stockpile, at some cost to the Exchequer, we could get the 90,000 standards of additional softwood and reduce imports by 125,000 standards. I am reluctant to do this, both on commercial and on strategic grounds, but it would save ... ..	8
<i>Cotton.</i> —The programme provides a seven-month's stock; the Raw Cotton Commission needs a big stock for efficient running, but our prospective 1952 cotton bill has gone up by £47 million since October, and I propose we make a saving in 1952, again predominantly by working with lower stocks, of ... ..	20
<i>Non-ferrous metals.</i> —No building of stocks ... ..	8
<i>Other materials.*</i> —Use of supplies in strategic stockpile to replace current imports, and no new stockpiling purchases of non-sterling materials, together with various miscellaneous savings might save ... ..	20
We should not, however, dispose of our stockpile of strategic metals and ferro-alloys.	
<i>Machinery.</i> —I have considered stopping imports of new machinery from the United States, but do not recommend it; the licensing is already very tight, and we could not gain much this year without real dislocation. I would expect that our action against investment would reduce these imports eventually ... ..	—

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\* Including Board of Trade and Ministry of Supply stockpile items.

24. It is at first sight tempting to do a further round of deliberalisation against imports from Europe, many of which are of relatively low essentiality. But I am convinced that this would be mistaken at this stage. Events have shown that we judged the deliberalisation measures last November well; our action was endorsed by O.E.E.C., and we have avoided retaliation. But my judgment is that if we went further now, there would assuredly be retaliation, and we should in fact precipitate a complete disintegration of intra-European trade. We should not gain much *net* in the balance of payments, and we should be starting a downward spiral. When we are paying 100 per cent. gold to E.P.U., we shall probably have to go ahead, but I think it would be mistaken to embark upon this now, before the need for this action is clear to our European partners beyond any shadow of doubt.

25. The same difficulties would arise if we abstained from a second general round of deliberalisation, but sought to put quota restrictions on a few specific goods, such as wines and spirits, or silks. The balance of payments argument can be effectively deployed if the action taken covers a wide range of commodities, selected without discrimination (as ours was last November) and with reasonable regard to the commercial interests of the supplying countries. But if a few items are selected for drastic treatment, which are of special importance to the economy of the supplying countries, our O.E.E.C. position is indefensible. Retaliation then

becomes inevitable. In the particular case of wines and spirits, restriction would be regarded as being a direct and unjustifiable blow against France. It is anomalous to allow wine to be imported when essentials have to be restricted, but I am sure we should lose more from cutting it than we should gain.

26. We could, however, make some saving in the second half of 1952, without incurring those difficulties, by reducing the quotas on products which have already been deliberalised;

	£ million
<i>Lower quotas on already deliberalised imports</i> ... ..	5-10

27. The arguments against further deliberalisation at this juncture apply, though with somewhat less force, against tourism. But tourism is such a large item—about £40 million a year, or substantially larger than our whole textile imports from Europe—that it is very difficult to exclude it from a list of expenditure cuts. If we made a cut (particularly if we put the ration below £35), we should have to justify it in O.E.E.C. I think we should make a cut, but we should not make it impossible for people to have holidays on the Continent; and we have to bear the French problem in mind as well as our own. A substantial cut would involve some modification of the arrangement under Uniscan for virtually unrestricted travel.

	£ Million
<i>Tourism.</i> —Reduction in ration to £25, with £5 export of notes instead of £10 ... ..	10-15

28. The proposals above add up to £92 million. To secure £150 million, it is necessary to cut £58 million from the only remaining important section of the import programme, which is food.

29. The scope for action in food is limited, because of the extent of forward commitments, but the following possibilities add up to £75 million, against the £58 million above:—

	£ million
<i>Wheat and flour.</i> —Reduce total stocks to 10½ weeks' consumption	7
<i>Sugar.</i> —Stop buying, and reduce ration by 2 oz. to 8 oz. ...	7
<i>Oils and fats.</i> —Stop buying, and reduce ration by 1 oz. to 5 oz. ...	12

[In both sugar and oil and fats, our forward purchasing commitments are very great. The savings indicated are those which would be made in 1952 by stopping all new non-sterling purchases. If this were done, but consumption maintained, stocks of sugar would be down to 9 weeks' consumption by end-1952, and stocks of oils and fats (of particular strategic importance) to 16 weeks'—10 weeks' cover for processing the raw material and 6 weeks' supply for consumption. This living on stocks would of course weaken the position in 1953.]

<i>Meat.</i> —Reduction in purchases from Argentina in next protocol agreement, and in purchases from other sources—saving of 90,000 tons (about 1d. on the ration, now estimated to average 1s. 4d.) ... ..	11
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If we want to buy Argentine meat in large quantities, we shall certainly have to pay about 25 per cent. more for it—so that if we do not cut our purchases very hard, we shall have a bigger import bill.

<i>Bacon.</i> —Discontinuing the Polish contract—between ¼ oz. and ½ oz. on ration ... ..	9
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<i>Coarse grains.</i> —Cut in ration pool from 5½ million tons to 5 million tons (substantial disruptive effect on United Kingdom food production) ... ..	17
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[It would obviously be impossible to cut both coarse grains and imports of meat.]

<i>Cheese.</i> —No purchase of Canadian cheese this year ... ..	2
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<i>Other Government purchases.</i> —Stopping buying miscellaneous foods, such as dried fruit, milk products, canned salmon, &c. ...	10
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Total food ... ..	75
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30. To select £58 million from this list of £75 million is a most painful operation. Indeed, this whole programme of £150 million—which is less than 5 per cent. of our total imports, and only about  $7\frac{1}{2}$  per cent. of our non-sterling imports—shows how narrow are the margins on which we are living. If the pound is allowed to fall, this import programme will be automatically cut, for we shall not be able to pay our suppliers. The question really is how to make the cut in the way which gives us the best prospects for recovery, and I would ask my colleagues, when considering their attitude to individual cuts in this list, to consider at the same time what are the alternatives.

#### *Longer-Term Considerations*

31. If we can convince the world that we are putting our internal economy in order, and that we are resolutely acting in combination with the rest of the sterling Commonwealth, to balance the sterling area's accounts and to stop the drain on the gold reserves in June, we can overcome the immediate crisis and restore confidence in sterling.

32. But we shall still have a very long way to go. We are trying at one and the same time to run a country which depends upon overseas supplies for half its food and nearly all its raw materials and petroleum, to carry out defence and international political commitments which involve direct expenditure of foreign exchange of well over £400 million a year, and to act as the centre of a world-wide financial system, based on sterling. We are doing this with a gold reserve which in the course of the next few months is likely to fall to a critical level, and which even now is only about one-fifth of our short-term external debts.

33. I draw three conclusions from this. First, we cannot bear this great load without a massive expansion of our earning power—producing enough of the things which the world wants, at the world's prices. Second, we cannot run the system and maintain sterling without gold reserves far above any level which they have attained since the end of the war, and we shall have to apply our energies as hard to building them in 1953 as we are fighting to stop the drain in 1952. Third, it will take a long and sustained effort to get these foundations of our economy right.

#### *Conclusions*

34. To sum up, I recommend:—

- (i) that it be accepted that the central objective in 1952, upon which all our other objectives depend, is to stop the drain on our gold reserves and thus to safeguard the food and raw material supply, and the purchasing power of sterling (paragraphs 13–15).
- (ii) that we must reduce our deficit with the non-sterling world in the second half of 1952 to an amount not exceeding £100 million (and if possible less) and thus—with a surplus of at least £100 million with the other sterling area countries—be in overall balance in the second half of 1952 (paragraph 18).
- (iii) that in addition to the internal measures before the Cabinet designed to increase our earning power, we should make a cut of £150 million in our import and other expenditure in the non-sterling world in 1952 (paragraph 21).
- (iv) that reductions in purchases of tobacco and raw materials of £72 million be made (paragraph 23).
- (v) that we do not yet embark upon a further round of deliberalisation of imports from Europe (paragraphs 24–25), but seek to make savings of £5–10 million in the second half by reducing quotas on items already deliberalised, and reduce the tourist ration to £25 (paragraphs 26 and 27).
- (vi) that the food and feeding-stuffs programme be cut by £58 million, and that items be selected accordingly from the list in paragraph 29.

R. A. B.

*Treasury Chambers, S.W. 1,  
19th January, 1952.*

TABLE I  
STERLING AREA BALANCE OF PAYMENTS WITH NON-STERLING WORLD  
(£ million)

	1951		1952		Total	1952 October Estimate
	1st half	2nd half	1st half	2nd half		
<i>Balance with non-sterling countries—</i>						
United Kingdom—						
Imports ... ..	983	1,240	1,022	1,061	2,083	2,281
Exports and re-exports	729	720	685	740	1,425	1,510
Invisibles (net) ... ..	+ 83	- 55	+ 28	- 28	...	+ 26
Defence aid ... ..	+ 3	+ 1	+ 113	+ 12	+ 125	+ 25
United Kingdom current balance ... ..	- 168	- 574	- 196	- 337	- 533*	- 720
Dependent territories ...	+ 181	...	...	...	+ 25	+ 50
Independent sterling area†	+ 258	+ 156	...	...	- 145	- 100
Sterling area deficit with rest of world ... ..	+ 271	- 730	...	...	- 653	- 770

\* Assuming all internal measures taken as proposed, and allowing for United States steel.

† Commonwealth countries' own estimates.

TABLE II  
UNITED KINGDOM OVERALL BALANCE OF PAYMENTS  
(£ million)

	1951			1952			October Estimate
	1st half	2nd half	Total	1st half	2nd half	Total	
Imports ... ..	1,643	1,865	3,508	1,676	1,714	3,390	3,620
Exports and re-exports ...	1,305	1,410	2,715	1,395	1,510	2,905	2,800
Invisibles (net) ... ..	213	54	267	141	119	260	255
Defence aid ... ..	3	1	4	113	12	125	25
United Kingdom current balance ... ..	- 122	- 400	- 522	- 27	- 73*	- 100*	- 540
Of which with—							
Non-sterling world ... ..	- 168	- 574	- 742	- 196	- 337	- 533	- 720
Sterling area ... ..	+ 46	+ 174	+ 220	+ 169	+ 264*	+ 433*	+ 180

\* The figure of United Kingdom surplus with rest of sterling area in second half of 1952, and thus the figure of United Kingdom overall balance, is deceptive. A continuing surplus of this scale with R.S.A. would be impossible unless we provided them with new sterling resources in order to finance it (particularly Australia, which is the big item). Consequently our exports there will probably be substantially less, and the surplus less, and our overall deficit correspondingly greater, except to the extent to which these exports go to other destinations, thus reducing our deficit with the non-sterling world.

TABLE III  
COMMONWEALTH FINANCE MINISTERS TARGETS

The following are the targets proposed by the Chancellor of the Exchequer:—

				Surplus or Deficit with Non-Sterling World (£ million)		
				Individual Countries' Estimates submitted for the Conference		Target proposed for Second Half of 1952
				Full Year 1952	Half-year	
United Kingdom ... ..	...	...	...	- 410*	- 205	- 100
Colonies ... ..	...	...	...	+ 25	+ 12	+ 27
South Africa (not a member of sterling area pool) ... ..	...	...	...	+ 14	+ 7	+ 25
Non-Commonwealth members of sterling area (Irish Republic, &c.) ... ..	...	...	...	- 73	- 36	(- 10)
Australia ... ..	...	...	...	- 71	- 35	+ 15
New Zealand ... ..	...	...	...	+ 5	+ 3	+ 10
India ... ..	...	...	...	- 78	- 39	- 10
Pakistan ... ..	...	...	...	+ 30	+ 15	+ 25
Ceylon ... ..	...	...	...	+ 23	+ 11	+ 13
Southern Rhodesia ... ..	...	...	...	+ 5	+ 2	+ 5
Total ... ..	...	...	...	- 530*	- 265	...

\* The United Kingdom deficit for 1952 with the non-sterling world is now estimated at 533, instead of 410, and the total deficit of the sterling area correspondingly higher. The difference arises primarily from rises in prices of imports.



TABLE IV

## UNITED KINGDOM IMPORT PROGRAMME, 1952

(£ million)

	<i>Non-Sterling</i>	<i>Sterling Area</i>	<i>Total</i>
Rationed food ... ..	228	331	559
Wheat and flour ... ..	106	11	117
Unrationed food ... ..	201	156	357
Supplies for agriculture ... ..	116	38	154
Tobacco ... ..	44	24	68
Coal ... ..	2	1	3
Oil ... ..	71	105	176
Industrial materials ... ..	1,074	619	1,693
Civil machinery ... ..	52	2	54
Civil manufactures ... ..	107	20	127
<b>Total</b> ... ..	<b>2,001</b>	<b>1,307</b>	<b>3,308</b>
Defence machinery and manufactures ... ..	82	...	82
<b>Total</b> ... ..	<b>2,083</b>	<b>1,307</b>	<b>3,390</b>
Of which strategic stockpile ... ..	33	24	57

SECRETC.(52) 11COPY NO. 6521ST JANUARY, 1952CABINETTHE SUDAN - EGYPTIAN CLAIM TO SOVEREIGNTYMemorandum by the Secretary of State for Foreign Affairs

On the 17th January, 1952, the Cabinet agreed (C.C.(52) 4th Conclusions, Minute 5) that I should circulate to them a memorandum setting out a suggestion which I made for going some way towards meeting King Farouk's claim to be King of the Sudan.

2. The suggestion which I have in mind is that we might tell King Farouk that, if we were able to reach an agreed settlement on the defence problem with his Government, we would be prepared to make an agreed statement with the Egyptian Government on the following lines:-

- (a) We recognise the need for friendly relations between Egypt and the Sudan, and it is the common aim of Egypt and ourselves that the Sudan should attain full self-government within 1952.
- (b) The Egyptian legislation changing the title of King Farouk to "King of Egypt and the Sudan" and enacting the outlines of the Constitution for the Sudan should remain on the Egyptian statute book, but its effect should be limited by points (c) and (d) below.
- (c) Pending the attainment of full self-government, the present administration in the Sudan should continue; thereafter the administration of the Sudan should be in accordance with the constitutional arrangements which will be made in connection with the attainment of self-government, pending the final determination by the Sudanese of their future status.
- (d) Provided that the representative organs of government in the Sudan approved, the determination of the future status of the Sudan should be accomplished by means of a plebiscite, and the conditions under which such a plebiscite should be held should be determined by an International Commission appointed for the purpose by agreement between the British and Egyptian Governments. (The International Commission might also declare the result of the plebiscite, and approve the measures taken to give effect to the decision which results therefrom.)

3. Whatever we say must be compatible with our pledges to the Sudanese, namely, to support the Governor-General in his efforts to produce a Constitution for the Sudan providing for self-government by the end of 1952 and to ensure that the Sudanese people shall be able to exercise their right to self-determination in complete freedom thereafter. Provided that King Farouk's claim to sovereignty was strictly limited in its practical effect as proposed above, there seems no reason to consider that the fact that we did not actively contest his right to call himself King of the Sudan would conflict materially with the Sudanese right to self-government and self-



determination. The underlying conception of such a statement of principles would be that we and the Egyptians had agreed to differ about the Egyptian claim during the interim period before Sudanese self-determination, and that thereafter the Sudanese would of course be free to unite themselves with Egypt under the common Crown, or to choose independence, or to apply for membership of the British Commonwealth. (Incidentally, I imagine that one consequence of this would be that we should no longer try to influence other countries against receiving or accrediting Ambassadors with credentials referring to King Farouk as "King of Egypt and the Sudan"; we should not, however, ourselves do this.)

4. I am aware that this scheme may have certain disadvantages. There would be a certain ambiguity about our position, and we might have to make it clear, if we were pressed for a public explanation, that we ourselves did not in fact recognise King Farouk's title and that we were in fact doing no more than agreeing to differ.

5. This might not satisfy the Egyptians. On the other hand, it might upset the Sudanese, who can hardly be expected to understand nice distinctions concerning the Egyptian claim to sovereignty, and who might react, as they did to the announcement of the Bevin/Sidky draft protocol in 1946, by making disturbances. Furthermore it is arguable that a specific reference to the recent Egyptian legislation would focus attention on this legislation and revive the heat engendered by its passing.

6. Nevertheless, if we are to reach agreement with Egypt over defence problems, it seems certain that we must do something to meet King Farouk's claim, since he is the person upon whom we must principally rely in order that there may be in office an Egyptian Government able and willing to negotiate with us over defence. Moreover, it is desirable that we should be able to convince the Americans that we are willing to make at least a gesture in this matter. The proposal which I have outlined seems to me the minimum likely to achieve these ends. As far as the Sudanese are concerned, it has the advantages that -

- (a) it preserves intact the present administration free from Egyptian interference and allows them to proceed towards self-government; and
- (b) it provides them with a further guarantee, over and above what we have already given them, that they will be free to choose their own future in due course.

7. I have asked the Governor-General of the Sudan and H.M. Ambassador in Cairo for their comments. If my colleagues agree, I should like, in the light of these comments, to discuss this idea first with the United States Government. Thereafter I should consider whether to instruct H.M. Ambassador in Cairo to put it to King Farouk, at the same time as he puts forward suggestions for breaking the deadlock over defence.

8. I attach a note on the legal and political situations as they affect this problem.

A.E.

Foreign Office, S.W.1.,

21ST JANUARY, 1952.

ANNEX

A. Legal Position

It cannot be contested that, before the Mahdi revolt, the Khedive of Egypt possessed the Sudan as part of the territories that he held under the suzerainty of the Ottoman Porte. At that date the Ottoman Sultan was the sovereign of the Sudan, exercising his ultimate sovereignty through the Khedive of Egypt, his vassal.

2. At the present day there are three doctrines about sovereignty over the Sudan, all of which are arguable, namely:

- (1) That, after the successful Mahdi revolt, the Ottoman Sultan and Egypt lost all the title to the Sudan that they had previously possessed, and the Sudan was either independent or res nullius. The Sudan was conquered in a joint British-Egyptian expedition. The Condominium Agreement provided for joint administration and made no provision about ultimate sovereignty at all, and therefore, since there was no ultimate title in existence and merely an arrangement for joint administration, the sovereignty, like the administration, is joint.
- (2) That the Ottoman-Egyptian title to the Sudan never lapsed but the Sudan was re-conquered to recover the Sudan for Egypt, but there was an Agreement that the administration should be joint. Under this doctrine Egypt is the ultimate sovereign of the Sudan but is bound by an Agreement for joint administration.
- (3) That the Ottoman-Egyptian title to the Sudan did not lapse completely after the Mahdi revolt, and the Sudan was re-conquered in the name of the Khedive, and the Condominium Agreement was merely an Agreement for joint administration. The ultimate sovereign of the Sudan was the Ottoman Porte but, in the First World War and as a result thereof, the Ottoman Porte ceased to be the suzerain of Egypt and the United Kingdom, as the protecting Power, took the place of the Ottoman Sultan as the ultimate sovereign of the Sudan. In 1922, when Egypt was first given independence, the United Kingdom reserved the question of the Sudan and therefore kept the title to ultimate sovereignty which it had obtained by a successful war from Turkey, but remained bound by the Condominium Agreement for joint administration with Egypt. Thus, the ultimate sovereign of the Sudan is the United Kingdom.

3. While all these three theories are arguable, I am advised that theory (2), that Egypt is the ultimate sovereign of the Sudan, is the one which would be most likely to be upheld by an international court, and the reference in the draft Sudan protocol of the Sidky-Bevin Treaty to the unity between the Sudan and Egypt under the common Crown of Egypt can be quoted in the submission of this view since His Majesty's Government were not in a position at that time in any way to affect the status of the Sudan without consultation with the Sudanese and therefore could only have made this statement if they believed it to represent the existing status of the Sudan. The first view is that which has commonly been put forward by the United Kingdom, the third view has, so far as can be traced at present, never been put forward officially at all.



## B. Political Situation

4. The promulgation of the 1948 Ordinances by the Governor-General, with the approval of the British Government, has in fact modified the position since the Bevin/Sidky agreement in 1946, with its reference to the "unity between the Sudan and Egypt under the common Crown of Egypt". The majority of the Sudanese today hope to secure full self-government through an all-Sudanese Council of Ministers and an all-Sudanese Legislative Assembly by the end of 1952; thereafter they hope to determine their future status. The recent action of the Egyptian Government in passing legislation which changed the title of King Farouk to "King of Egypt and the Sudan", and which laid down the outlines of a Constitution about which the Sudanese were not consulted and which retained the essentials of control in Cairo, has deepened Sudanese suspicions of Egyptian intentions. At the same time, the Sudanese, while noting the assurances contained in my statement of 15th November last, are somewhat apprehensive lest we may nevertheless do a deal with Egypt at their expense, in order to secure a settlement of the defence question. They are, moreover, doubtful whether we are really determined, or able, to introduce early self-government. They welcome the Egyptian purported abrogation of the Condominium Agreement, but as a result they are wondering where sovereignty over the Sudan may be said to reside. Furthermore, they are divided among themselves about the political future of the Sudan and about the constitutional steps to be taken before self-government can be achieved. In these circumstances some of them have a vague hankering after some form of international supervision, perhaps by a United Nations Commission, until self-determination becomes possible, which would guarantee them against any possibility of a deal by us at their expense or any delay in the attainment of self-government.

SECRETC. (52) 12COPY NO. 6423RD JANUARY, 1952CABINETHOUSING PROGRAMME: SUPPLY OF SCARCE  
MATERIALSMemorandum by the Chancellor of the Duchy of  
Lancaster

On 28th December the Cabinet invited me to report on the implications of the Housing Programme on the requirements of scarce materials (C.C. (51) 20th Conclusions, Minute 3(3)). I have examined the programme with all the Departments concerned and the following are the implications as nearly as we can see them.

1. Timber

(a) The programme will require an additional 90,000 standards in 1952 at a cost of approximately £9 millions and an additional 120,000 standards in 1953 at a cost of approximately £12 millions;

(b) The additional timber required can only be made available by additional imports, by reducing commercial stocks, or by raiding the strategic stockpile. It is impossible to find the additional quantities required by savings from other uses.

(i) Imports. If the additional timber is imported, about one-third of it might come from North America. Though the f.o.b. price in America is cheaper, the freight is higher and the landed cost in sterling of American and European timber is about the same. The timber trade must have authority to buy this timber at latest by the end of July, but earlier if possible. Because of the further increase in requirements in 1953, it will be necessary to increase imports in 1952 by more than the additional actual consumption in that year. Altogether an additional 90,000 standards will have to be imported in 1952 at a cost of about £9 millions, and in order to meet the 1954 requirements it will be necessary to import an additional 120,000 standards in 1953 at a cost of about £12 millions. The Chancellor of the Exchequer has said that the present figures of our reserves show that hopes of increased softwood imports to provide an allocation above the present level cannot be entertained at present. If additional imports have to be envisaged later, unpleasant sacrifices may be necessary to balance these purchases.

(ii) Commercial stocks. If these were reduced to an inadequate level serious internal distribution difficulties would arise, which would certainly delay the housing programme. This has been proved by recent experience. If the working stock is reduced below 300,000 standards at the middle of the year, distribution will become



precarious now that we are operating a six months' licensing system, which has been found to be a necessary adjunct of the restoration of private trade in softwood. I regard a reduction of commercial stocks as impracticable.

- (iii) Strategic stockpile. This is an important stockpile because timber cannot be easily or quickly transported in large quantities in war time. Nevertheless, if we cannot increase imports a draw on the stockpile is, in my view, the only way of finding the timber. It is the only alternative to importing more timber, or building fewer houses.

(c) The timber estimate in sub-paragraph (a) above is based on the assumption that Scotland will not press their demand to use timber for floors, except on sloping sites, which is the British practice. This limited use of timber floors requires an additional 4,000 standards of timber; but it has the countervailing advantages that it saves 2,500 tons of steel reinforcing rods and reduces the cost of a house by about £20.

## 2. Steel

(a) The Ministry of Housing must have authority to continue to build flats in London and some large cities where they are the only practical form of housing. But flat building will be limited to the existing level of 20,000 flats a year.

(b) For house and flat construction it is estimated that the requirements of steel would be 78,000 tons in 1952, 81,000 in 1953 and 85,000 tons in 1954.

(c) The requirements of steel for war and sewerage on housing sites are estimated at 9,250 tons in 1952, rising to 12,000 tons in 1954. This steel must be provided to fulfil the housing programme, but it will mean a considerable slowing down in general water and sewerage schemes. I cannot hold out much hope of increasing the total allocation of steel for water and sewerage this year. It looks as if the demands of defence, exports, and the basic industries will absorb all the extra steel we shall get from America.

(d) The requirements of steel for gas on housing estates and associated main extensions will probably be of the order of 6,000 tons in 1952, rising to between 7,000 and 8,000 tons in 1954. In addition the gas authorities use substantial quantities of cast iron, much of which is closely related to housing needs.

(e) The requirements of steel for housing fitments (including metal windows, cooking and heating apparatus, locks and hinges, plumbing, etc.) are estimated to be 149,000 tons of steel of all kinds in 1952, 168,000 in 1953 and 194,000 tons in 1954. The requirement for housing in 1952 will be about 5,000 tons more than for the 200,000 houses in the previous programme. This is likely to be the worst bottleneck. The steel for housing fitments is included in the Ministry of Works allocation of "Steel for Building Material Industries". It was impossible to give the Ministry of Works more than 70% of their aggregate claim under this head in the first quarter of this year; and I see little prospect of being able to do much better in the next quarter, having regard to the increased requirements for defence and exports.

(f) Every effort is being made to economise in steel in the design of new buildings, but these economies cannot be effected in work already started and cannot, therefore, affect the demand for steel in 1952.

### 3. Bricks

The number of bricks required for an additional 30,000 traditional houses is about 600 millions. The additional number of bricks required in 1952, therefore, will be at least 600 millions and in 1953 at least 1,200 millions. It may be that the additional net demand will actually be more because some of the houses completed in any one year will have to be started in the preceding year. In 1951 the brickmaking industry produced 6,000 million bricks and the Minister of Works considers that, under the most favourable circumstances, the industry may produce 6,800 million bricks in 1952 and 7,200 million bricks in 1953. To do this the industry must be assured, in particular, of adequate and regular coal supplies, additional labour, houses for key workers where needed, and credit facilities. We should also bear in mind that steel shortages in other parts of the building industry may create additional demands for bricks. The supply position, therefore, is going to be tight, and we must be careful not to let loose too much demand from other kinds of building work.

### 4. Copper

The other scarce material on which housing will make some increased demand is copper. The full programme, of 300,000 houses, needs 12,000 tons of copper. Copper looks like succeeding steel as our next headache. Civilian use is already drastically curtailed; but even so it will take us all our time to meet the requirements of defence and other essential uses. Rhodesian output is temporarily slowed down for want of coal. This will mean keeping demands from other countries for our copper within very strict bounds. But we ought to be able to satisfy the housing programme.

### 5. Labour

I should also make a reference to the possible scarcity of skilled building labour. The Minister of Housing agreed at the Cabinet meeting on 28th December that the labour force engaged on housing should not be increased above its present level. There will, however, be labour problems in particular areas, and these will not be confined to questions as between factory building and housing, but will be between all the other building work going on in the region, including defence and housing. It is worth considering again whether it would not be in the interest of the housing programme as well as that of other urgent building if a co-ordinated regional building control covered starting dates for houses as well as all other building work. This ought to be helpful to the housing programme if the regional control had a directive to speed up and increase housing wherever possible without injuring the essential needs of defence and vital industrial requirements.

SWINTON

Treasury Chambers, S.W.1.,

23RD JANUARY, 1952.



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C.(52) 13

COPY NO. 58

23RD JANUARY, 1952

CABINET

TRANSFER OF MILITARY EXPENDITURE FROM  
CIVIL TO DEFENCE VOTES

Memorandum by the Chancellor of the Exchequer

The Secretaries of State for War and Air have been reluctant to agree to a suggestion of mine, which has the support of the Colonial Secretary, that the cost of United Kingdom forces acting in aid of the Civil Power in Malaya over and above what the same forces would otherwise cost - estimated at £9 millions for 1952/53 - should be transferred from the Vote for Colonial and Middle Eastern Services to Army and Air Votes. My reasons for suggesting this change are as follows:-

- (a) from the formal standpoint it is undesirable that an essentially civil vote should be distorted by comprising military expenditure to the extent of some 35%;
- (b) in principle the Departments which bear the main responsibility for framing the policy for a particular service - in this case the War Office and Air Ministry - should bear the cost. Only thus can due economy be ensured;
- (c) the need for all defence expenditure, so far as possible, to be viewed as a whole in terms of relative priorities against the background of our general economic position;
- (d) the struggle in Malaya is but one facet of the world-wide struggle against Communism and its successful conclusion is clearly an imperial interest. It is quite unrealistic to represent it as a purely local disturbance.

2. My proposal seems to me to be important not only from the formal standpoint but as a means of yielding some measure of economy, although initially it would doubtless be necessary to make a suitable adjustment in the total sum allowed for Army and Air Force Votes.

3. I ask my colleagues to agree that the military expenditure in question should be transferred from Civil to Defence Votes and that this change should be effected in the estimates for 1952/53.

R.A.B.

Treasury Chambers, S.W.1,

23RD JANUARY, 1952.

(THIS DOCUMENT IS THE PROPERTY OF HIS BRITANNIC MAJESTY'S GOVERNMENT)

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C.(52) 14

COPY NO. 60

a. 24TH JANUARY, 1952.

CABINET

MAN-POWER

Memorandum by the Minister of Labour  
and National Service

I was invited by the Cabinet (C.C.(51) 17th Conclusions, Minute 3) to submit to them a draft of the announcement which I proposed to make about the reintroduction of a Regulation of Engagement Order and the revival of Labour Supply Inspection.

I have now obtained the agreement of the National Joint Advisory Council to the proposals which I put before them and I circulate as an annex to this paper the terms of a public announcement. My colleagues will wish to note that the Order will be called the "Notification of Vacancies Order".

I have discussed the timing of this announcement with the Chancellor of the Exchequer, who has agreed that it should form a part of the statement on the economic situation which he will be making in the House of Commons on Tuesday, 29th January.

W.M.

Ministry of Labour and National Service,  
S.W.1,

24TH JANUARY, 1952.



ANNEXDRAFT ANNOUNCEMENT

The shortage of man-power is such that the needs of essential industries, particularly those producing for the defence programme or for export and certain basic industries, cannot be met unless further steps are taken, first, to secure that man-power is distributed in accordance with the nation's needs and, secondly, to improve its efficiency and economical use. The Minister of Labour has, in consultation and in agreement with the National Joint Advisory Council, devised new arrangements for this purpose.

The first essential thing is to ensure that workers changing their jobs or seeking employment should at least have knowledge of where their services can best be used in the national interest, and should not through lack of that knowledge, go into the less important jobs, when they would be prepared to take more important work if they knew of it. For this purpose the Minister of Labour is making an Order under Defence Regulations requiring employers seeking to engage workers to do so by notifying their vacancies to a Local Office of the Ministry of Labour, and to engage only workers submitted by a Local Office. Certain employment agencies working under approved arrangements and in accordance with official directions may be used instead of Local Offices.

Advertising of vacancies will be permitted provided that the advertisement states that applications must be made to a Local Office.

The Order will not apply to the engagement of persons under 18 years old, or men who have reached 65, or women who have reached 60, or women with a child under 15 years old.

Agriculture and coalmining and one or two other special classes of work will be excepted.

Appointments to managerial, professional, administrative or executive posts will not be affected by the Order.

The Order will be laid as soon as possible and will come into force on 25th February.

It must be made perfectly clear that there is no intention of attempting to compel workers to take jobs they are unwilling to take. No directions to workers are to be used. They will be told of the important vacancies and asked to take them willingly. If they are not willing to do so they will be submitted to other work of the kind they desire, needing labour.

Labour Supply Inspectors will again be used under existing powers, to examine the labour requirements of firms asking for additional labour, and to ascertain whether their needs could be met by other arrangements, such as up-grading and training. If a firm is found to be sufficiently manned, additional labour will not be supplied.

Industries are to be invited to review their training and apprenticeship arrangements, and to consider whether their scope could be widened, the period of training could be shortened, and age limits be removed or extended.



Printed for the Cabinet. January 1952

SECRET

Copy No. 76

C. (52) 15

25th January, 1952

## CABINET

### DEFENCE PRODUCTION PROGRAMME: DEFERMENT OF CALL-UP OF EX-APPRENTICES

#### MEMORANDUM BY THE MINISTER OF LABOUR AND NATIONAL SERVICE

The Cabinet on 29th November last invited me to consider, in consultation with the other Ministers concerned, the desirability of a limited measure of deferment for ex-apprentices employed on essential parts of the defence production programme which would be seriously delayed by the calling-up of these men (C.C. (51) 13th Conclusions, Minute 2). I have considered this problem with the three Service Ministers and the Parliamentary Secretary, Ministry of Supply. We are agreed that (a) if it were practicable to define sufficiently narrowly the ex-apprentices eligible for deferment, and (b) if there were any prospect of being able to prevent widespread extension of the concession, it would be to the advantage of our defence plans as a whole to retain in industry a limited number of ex-apprentices who would normally go into the Forces. We are not, however, agreed that either of these conditions is attainable, and I accordingly submit the question to the Cabinet for decision.

2. The Ministry of Supply has asked for the deferment of the calling-up of ex-apprentices in all skilled trades employed by the principal firms engaged on the four following branches of work (but not those employed by sub-contractors to principal firms:—

	<i>Approx. numbers per annum</i>
(i) Guided weapons and the latest types of aircraft ...	750
(ii) The machine-tool industry ... ..	650
(iii) Ministry of Supply research, development and industrial establishments, including the R.O.Fs. ...	250
(iv) Important radar projects ... ..	600
	<hr/> 2,250

The ex-apprentices concerned are men who have received at least five years' comprehensive technical training, towards the end of which both engineer and craft apprentices have specialised in a skilled trade in these branches of the engineering industry and, indeed, form an essential part of the production team.

3. The Services can make full use of all the skilled men available for call-up from certain engineering occupations (for example, the general fitters). They cannot use all of those becoming available from some other occupations (for example, draughtsmen, tool-room workers and skilled machine-shop workers) in strictly corresponding Service trades, though they can adapt them to other Service trades where their specialised skill cannot be fully used.

The Ministry of Supply agree that the Services should be allowed to take those of the ex-apprentices whom they require as tradesmen, and whose skill they can fully use. They also agree that no man should be compelled to accept deferment.

Allowing for this and for a proportion of medical rejections, the actual number of deferments for the Ministry of Supply would be reduced to between 1,200 and 1,300 a year.

4. The Ministry of Supply case is that the firms and Ministry of Supply establishments concerned are finding it impossible to recruit the skilled labour necessary to meet their production commitments. As a result, the production of machine tools is being delayed and this in turn will aggravate the present delay in the production of aircraft, tanks and radar for the Forces, which is itself largely due to shortage of skilled labour. The defence production programme is generally at either the design or "tooling-up" stage, at which the rate of progress depends mainly on maintaining the flow of drawings and maintaining and expanding the core of fully skilled craftsmen on to which semi-skilled men can be built as new lines of production come into being. For this purpose, these men are especially valuable because their training has naturally been biased towards the needs of the branch of industry and establishment in which they have been trained. This applies to those in occupations which are common to the engineering industry as a whole and all the more so to those in occupations peculiar to these sections of industry. Men recruited from other branches of industry, if they could be found, would all need a period of adaptation for perhaps six months before they could be fully effective.

5. The Admiralty support the Ministry of Supply and ask, in addition, for the deferment of calling-up of the following ex-apprentices:—

	<i>Approx. numbers in question per annum</i>
Draughtsmen in all establishments (Government or private) engaged on Admiralty rearmament work	350
Shipwrights employed in the Royal Dockyards provided, if not already employed at Portsmouth, they are prepared to move there	100
	<hr/> 450

Electrical requirements are at present the pace-maker over a very wide field of Naval production and these are being held up in the drawing offices of the Admiralty because of a lack of draughtsmen, which all efforts have failed to overcome. The shortage is, however, by no means confined to electrical requirements. It is almost as acute in the ship construction and engineering fields both in the Admiralty and in private firms. Among the ships suffering delay are aircraft carriers and coastal minesweepers. As regards the shipwrights, the modernisation of H.M.S. *Victorious* was started at Portsmouth in October 1950 in order, more quickly and cheaply than could be done by new construction, to ensure that the Navy would be able fully to deploy the planned future strength of modern naval aircraft. At least 300 more shipwrights are required immediately and a further 200 during the next twelve months if the time set for completion—by October 1954—is to be met.

6. Allowing for medical rejections, the *total* number of men for whom deferment is applied for is accordingly of the order of 1,500 out of about 23,000 ex-apprentices in engineering and metal-working occupations who become available for calling-up annually. (Over the last two years, there has been practically no return flow of skilled men from the Forces to industry on completion of national service. A return flow is just beginning, which may amount, in this field, to about 16,000 this year, and will increase gradually thereafter to about 23,000 in two or three years' time.)

7. The Air Ministry supports the proposals of the Ministry of Supply and the Admiralty.

8. Against these proposals there are the following two serious objections. Any further breach in the principle that the heavy obligation of national service in peace-time is one to be discharged by all fit young men alike would inevitably make it more difficult to maintain general public support for peace-time conscription, without which we could not get within sight of maintaining Forces large enough to meet our needs. With the sole exceptions of the basic industries of coal-mining



and agriculture and a few highly qualified scientists, this principle has up to now been rigidly observed.

The second objection is this: while we are all agreed that, if the door to deferment in manufacturing industry is opened, it is important to prevent it being pushed wide open, it is my view, supported by the Secretary of State for War, that it is likely to prove impossible to prevent this, even if it is opened only to the relatively small extent proposed. In view of the general shortage of skilled labour, many employers in the engineering industry engaged on work of national importance, e.g., for export, would certainly be able to make out an equally good case for deferment and the Ministers responsible for this production would doubtless feel bound to support them. There is already strong pressure for the deferment of some operating grades of railway workers, supported by the Ministry of Transport, and it would be well-nigh impossible to resist this if once a concession were made to the engineering industry. The agricultural industry is also agitating for more deferment. If the door were once forced wide open, this might have disastrous results on the whole policy of call-up, and would certainly have such an effect on the numbers available for the Forces that it would be impossible to keep them reasonably well manned. The Forces are already short of man-power, and there might then be no alternative but to increase, once more, the period of whole-time national service to be served by the men who were called-up.

9. If the scheme could be limited to draughtsmen and possibly one or two more highly skilled occupations (or, better still, to particular individuals), the risk of a catastrophic extension of the concession would be somewhat reduced, and that risk might be accepted, but I am most apprehensive and the Secretary of State for War shares my view, about the dangers involved in a scheme covering a wider range of occupations. The Secretary of State for Air, on the other hand, takes the view that the production programme for modern aircraft, especially modern fighters, is running so much behind schedule that, despite the danger which he recognises of a breach of the universality rule, on the grounds shown the Ministry of Supply's proposals ought to be accepted as in the best interests of defence. The First Lord of the Admiralty shares this view, and holds, as regards the naval production affected by his proposals, that it is more important to avoid further delay in the provision of new ships or up-to-date equipment than to have even several thousand more men under arms in the immediate future. The Ministry of Supply consider that it is not the occupation so much as the nature of the defence work being done, as defined at paragraph 2, which sets a clear limit to the concession. To restrict the scheme to a few selected occupations would detract substantially from its value, because all skilled trades concerned are inter-dependent and form part of a production team. They are, however, anxious to make deferment conditional upon Ministry of Labour technical investigation in each case, thus ensuring that there would be no abuse of the concession.

10. Decisions are required on the following alternatives:—

- (a) In view of the shortage of skilled labour which is delaying certain vital parts of the defence programme, should the present administration of the National Service scheme remain unchanged in order to avoid any further breach in the principle of universality?
- (b) Should the demands of the Admiralty and the Ministry of Supply for the deferment of all ex-apprentices working in the sections of industry and on the special projects mentioned above be granted in full, subject to the agreed proviso that the Services should have those whose skill can be fully used by them?
- (c) Should an even more limited scheme confined to a number of designated projects of the highest importance and to a few selected special occupations of the highest skill be worked out, subject to the same proviso as in (b)?

W. M.

*Ministry of Labour and National Service, S.W. 1,  
25th January, 1952.*

*Printed for the Cabinet. January 1952*

SECRET

Copy No. 68

C. (52) 16

28th January, 1952

**CABINET**

**MALAYA**

**NOTE BY THE LORD PRIVY SEAL**

Attached is the report of the Committee appointed to consider in detail the report on Malaya by the Secretary of State for the Colonies.

S.

*Office of the Lord Privy Seal, S.W.1,  
28th January, 1952.*



## ANNEX

## REPORT BY THE COMMITTEE ON MALAYA

We were invited by the Cabinet on 28th December, 1951 (C.C. (51) 20th Conclusions, Minute 1), to consider in detail the report on Malaya (C. (51) 59) by the Secretary of State for the Colonies. We endorse the recommendations in this report and draw the attention of the Cabinet to the particular points set out below. Action on many matters of detail within the competence of the Secretary of State for the Colonies is, we understand, already proceeding.

*Responsibilities of the High Commissioner*

2. The Chiefs of Staff and the Commanders-in-Chief, Far East, have agreed that the High Commissioner must have complete operational control of all the forces in the Federation, and be empowered to issue operational orders to the G.O.C., Malaya, without reference to the Commanders-in-Chief. These must, however, continue to be responsible for the morale, discipline, training and administration of their respective forces. In order to ensure the closest consultation between the High Commissioner and the Commanders-in-Chief (who are, of course, responsible for the whole Far Eastern theatre) it has been agreed that Sir G. Templer should be invited to attend all meetings of the British Defence Co-ordination Committee (Far East) at which the internal or external defence of Malaya are to be discussed or when he himself expresses a wish to attend.

3. We agree with the strong recommendation of the Secretary of State for the Colonies (paragraphs 44 to 47 of C. (51) 59) that the High Commissioner's responsibility should be confined to the Federation. Although our policy must be to bring Singapore and the Federation into closer union as rapidly as circumstances permit, there would be the most severe reactions—both from the Malays in the Federation and the Chinese in Singapore—to any attempt to force the pace. If there were weighty practical advantages in putting these two territories under one head, then the risk of upsetting local opinion might have had to be accepted. Our view is, on the contrary, that the practical advantages are in favour of a High Commissioner for the Federation alone. This limitation of the High Commissioner's responsibilities has, on the whole, been received with understanding by the Press.

*Federal War Council and Cabinet*

4. Although it would be desirable to simplify the complicated pattern of Government in the Federation by amalgamating the Federal War Council with the Executive Council, it is not possible to press this measure without some regard to local political factors. The new High Commissioner is seized of the importance attached by Ministers to this simplification of the administrative machine. The acting High Commissioner has been informed that General Templer will wish to consider the possibility of an early merger very soon after his arrival. The establishment of an inner "War Cabinet" (paragraph 49 of C. (51) 59) will ensure that the urgent tasks of the campaign are pressed ahead with resolution and the minimum of delay.

*Commissioner-General South-East Asia*

5. The Commissioner-General has a dual responsibility. He answers to the Secretary of State for Foreign Affairs for the "better co-ordination of measures for the maintenance and protection of His Majesty's interest" in the foreign countries in South-East Asia, and is responsible for advising His Majesty's Government on general problems of foreign affairs within his area. He is specifically charged with constant watch over the food situation in the area and regional intelligence and information.

6. The Commissioner-General is also His Majesty's principal representative in the Colonial and Protected Territories of South-East Asia (Federation of Malaya, Singapore, Sarawak, North Borneo and Brunei). His published instructions direct him to promote the co-ordination of policy and administration between the Governments in his area of authority. He has no administrative functions in any territory however, though he can issue directions on "defence matters" to the High Commissioners and Governors. His defence advisers are the Commanders-in-Chief, Far East, and he forms with them the British Defence Co-ordination Committee,



Far East, of which he is Chairman. His present instructions tell him that "Defence" includes all measures necessary for dealing with the Emergency in Malaya; but the Colonial Secretary is arranging for this arrangement to be ended, since the High Commissioner alone must have full responsibility within the Federation. It is, however, desirable that the power of direction should be retained for general defence purposes to ensure that all the Colonial Governments in the area march in step in their preparations against aggression.

7. We have considered whether there is any real justification for retaining the appointment of Commissioner-General. The Foreign Office would wish to retain a "listening post" in Singapore, but do not regard the retention of a high-powered Commissioner-General as essential, and they are concerned at the high cost of the present organisation. It would, however, create an unfortunate impression both in the Far East and elsewhere if at this time we were to take a step which might be held to indicate a lessening of our determination to maintain our position in the area. We have also taken into account the very great personal prestige and popularity which Mr. Malcolm MacDonald enjoys in South-East Asia, and the considerable local feeling against his giving up the appointment, together with the great assistance that he would be able to give the new High Commissioner and the new Governor of Singapore. Our conclusion is that there would be advantage in his remaining as Commissioner-General, South-East Asia, for three or four months after the normal expiry of his appointment in May, and that the continuation of the post of Commissioner-General, South-East Asia, when Mr. Malcolm MacDonald finally leaves it, should be decided in the light of events nearer that time. The Secretary of State for the Colonies has undertaken to look into the present cost of the Commissioner-General's organisation, which appears unduly high.

#### *Police and C.I.D.*

8. While we do not advocate the immediate amalgamation of the police forces of the Federation of Malaya and Singapore, since the separate administrations must have a large measure of control over their own forces, we consider that there might be an advantage—since there are many intelligence problems in common—in establishing a unified C.I.D. under the Commissioner of Police in the Federation. This is essentially a problem to be studied by the authorities in the Federation and Singapore in the first place, but we would urge that, if the practical advantages of amalgamation are seen to be considerable, political considerations should not be allowed to weigh too heavily against the implementation of such a scheme. It is in any case desirable that the closest liaison should be maintained between the separate C.I.D.s.

#### *British Officers for the Malay Regiment (Appendix X of C. (51) 59)*

9. The present standard of British officers in the Malay Regiment is not satisfactory. Although they receive additional pay the number of volunteers has not been sufficient and it has been necessary to post on a compulsory basis. A short while ago special much higher rates of additional pay were approved for volunteers and it is not yet possible to say whether these new rates will prove sufficient inducement. We have, however, asked the Secretary of State for the Colonies and the Secretary of State for War to re-examine the question as a matter of urgency.

10. Whether, however, the majority of officers are found on a voluntary or compulsory basis, there must remain the difficulty of providing the number of officers needed of the quality which has been asked for. British Regiments and Battalions are already considerably below the strength in regular officers needed for efficiency and can stand no further depletion. A scheme is being examined for attracting ex-Indian Army officers to accept Short Service engagements for the Malay Regiment.

#### *Tax Evasion*

11. We have noted the danger that the whole system of taxation for Malaya may be brought into contempt by the widespread evasion of income tax, and we reinforce the request (Appendix XIII of C. (51) 59) that a staff of qualified experts should be sent for a period to Malaya to carry out an investigation of some of the more complex cases, and collect material for exemplary prosecutions.



*Recommendations*

12. We recommend that the Cabinet should give general approval to the proposals contained in the report on Malaya by the Secretary of State for the Colonies, and in particular should—

- (a) endorse the decision to appoint a High Commissioner with full responsibility for both the civil administration and military operations within the Federation;
- (b) agree that the term of office of the present Commissioner-General, South-East Asia, should be extended for three or four months after he is due to be relieved in May, but that consideration as to whether he is eventually to be relieved or the post abolished should be deferred for the time being;
- (c) agree that the High Commissioner and the Governor of Singapore should consider the most efficient way of integrating the two police forces and in particular the C.I.D.s;
- (d) take note that the Secretary of State for the Colonies and the Secretary of State for War are considering the proposals for improving the number and standard of British officers in the Malay Regiment, and invite them to submit the result of their consultation to the Minister of Defence;
- (e) take note that the Secretary of State for the Colonies will be asking the Chancellor of the Exchequer to assist the Malayan Governments in combating income tax evasion by the temporary loan of an expert investigation staff.

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Copy No.

63

C. (52) 17

29th January, 1952

**CABINET****GOVERNMENT OFFICE ACCOMMODATION****MEMORANDUM BY THE MINISTER OF WORKS**

I wish to call the attention of the Cabinet to the amount of accommodation occupied as offices by Government Departments and to the possibilities of making considerable savings in this field.

There are three ways in which reductions can be made—

- (1) Existing staffs can be concentrated in new buildings. There would be big savings from this but they must wait until the needs of defence and housing have been met.
- (2) Important economies can be made by better use of the space we have.
- (3) Staffs can be reduced.

Excluding the Post Office, the totals in respect of staff using office accommodation are:—

			<i>Number Accommodated</i>	<i>Floor Space Sq. ft.</i>	<i>Approximate Cost per Head per Annum £</i>
1938	...	...	120,000	19,000,000	40
1951	...	...	310,000	41,000,000	80

The floor space occupied at present is divided between the following premises:—

		<i>Total</i>		<i>London Only</i>	
		<i>Square Feet</i>	<i>No. of Premises</i>	<i>Square Feet</i>	<i>No. of Premises</i>
Crown Offices	...	15,000,000	10,000	5,500,000	243
Leased	...	22,000,000		8,000,000	1,256
Requisitioned	...	4,000,000		2,300,000	548

Some 30,000 persons are accommodated in the requisitioned premises.

2. It was hoped that of the 4 million square feet under requisition when we took office 1 million would be released as buildings now going up were completed. This has become less likely since the Defence Programme will call for additional accommodation. As a result many owners and tenants, who looked to a Conservative Government to give them back their properties, are going to be disappointed.

3. The public would accept this situation more readily if Departments were seen to be making the best use of the space they have. I believe that quite small snippets off the fringe of Government staffs, backed up by re-arrangements of accommodation, would allow considerable numbers of buildings to be released.

I therefore submit a list of possible savings:—

- (1) *The amalgamation of certain Departments.*—These are issues of Government policy. I understand that large economies are looked for from the amalgamation of Civil Aviation and the Ministry of Transport.



(2) *Joint use of local offices.*—Even without amalgamation savings could be made if, for example, the Ministries of Labour, National Insurance, and the National Assistance Board, whose work is in the same field, would agree in principle to share accommodation in their local offices. This question is being examined by the Government Organisation Committee.

(3) *A review of the accommodation devoted to registries, training, libraries, welfare, and other ancillary services.*—Of the 10 million square feet of office space used by London Headquarters staffs, nearly 2 million square feet is taken up by such activities. The Civil Service, like the Forces, easily grows a tail—every so many extra staff require a pay clerk, registry clerk, training and welfare amenities—all calling for space, furniture, light and heating.

Registries and records are making a growing demand for space and equipment. The Ministry of Works spends on behalf of other Departments about £200,000 a year on some 13,000 filing cabinets, some of which, for security reasons, are made in sheet steel. As an example of what can be done my Department has in recent months combed its registries for defunct files. Seventy-nine tons of paper have been sent to be pulped, 80 cabinets given up and a quarter of a mile of racking emptied.

(4) *More economical use of space generally.*—Since the war stricter standards have been laid down, giving the number of square feet per person, under which only very senior staff were to be allowed rooms to themselves. But Departments have made so many cases for special treatment that nothing like the hoped-for result has been achieved. If in spite of the admitted difficulties the agreed standards were put into force, a saving of as much as 10 per cent. is still possible in Headquarters offices in London. Most of the premises held on requisition for these staffs could then be released. Although less is possible in local offices there is further scope for saving in the Regional Offices.

4. I recommend that an extra effort to save space should now be made. But experience shows that this will only be successful if Ministers are willing to give personal attention to this disagreeable task. If my colleagues would find it helpful I would send to each of them a list of premises which I consider might be given up by a certain date. In focussing attention on particular buildings and parts of buildings which might be released I would take into account both the staff reductions now under consideration and the extent to which Departments are now making the best use of their space. Action of this kind would cause inconvenience and mean some extra work for my Department but should more than pay for itself in savings in money and buildings.

D. E.

Ministry of Works, S.E. 1,  
29th January, 1952.

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CONFIDENTIAL

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C. (52) 18

30th January, 1952

## CABINET

### THE NAVAL DISCIPLINE BILL

#### MEMORANDUM BY THE FIRST LORD OF THE ADMIRALTY

Summary of recommendations or points for decision:—

- (a) I recommend that a Naval Discipline Bill be introduced as soon as its text has been cleared by the Legislation Committee (paragraph 2). Prior decision is, however, required on the following issues of policy.
- (b) *Composition of Naval Courts-Martial*.—I propose that membership should continue to be restricted to officers of the Executive Branch notwithstanding the majority recommendation of the Pilcher Committee in favour of admitting officers of other Branches (paragraphs 3–5).
- (c) *Death penalty for offences other than mutiny and desertion to the enemy*.—I ask for approval for the changes outlined in paragraph 8 (a).
- (d) *Death penalty for Mutiny*.—I recommend that death should be the maximum penalty in war or on active service for participation in mutiny without violence otherwise than as a ringleader, and for failure to use utmost exertions to suppress such a mutiny (paragraph 8 (b)).
- (e) *Death penalty for desertion to the enemy*.—I ask the Cabinet to decide between the alternatives set out in paragraph 8 (c) (v).
- (f) *Statutory definition of mutiny*.—I ask the Cabinet to endorse the definition proposed in paragraph 9.
- (g) *Fines for Officers*.—I recommend that the Bill should provide for the introduction of fines as a punishment for Naval officers in time of war (paragraph 12).

2. The Bill is completely drafted apart from details depending upon the Cabinet's decisions on the major points of policy outlined below. Its purpose is threefold: to give effect to decisions on the major recommendations of the Pilcher Committee on the administration of justice in the Navy (Cmds. 8094 and 8119), to facilitate the working in the Navy of the appeal system which is to come into force shortly and to modernise many provisions of the Naval Discipline Act.

#### *Membership of Naval Courts-Martial*

3. The majority of the Pilcher Committee (First Report, Recommendation 6) proposed that all officers of the Royal Navy, Royal Marines and the Reserves (except Chaplains) over twenty-one and of or above the rank of Lieutenant, R.N., should be eligible to sit as members of courts-martial. One member signed a minority report in favour of continuing to restrict membership to officers of the Executive Branch of the Royal Navy.

4. The Board of Admiralty have considered this recommendation with the greatest care on several occasions, but its Naval members have throughout remained unanimous in the view that to admit non-executive officers to membership of courts-martial would be a mistake which could not improve the administration of justice in the Navy and might have ill effects upon discipline.

5. The Bill as drafted limits membership to officers of the Executive Branch, but admits Reserve officers of that Branch. The arguments in favour of that policy are shown in Appendix I.



### *The Death Penalty*

6. The three Service codes have always differed widely in the maximum punishments for certain similar offences and it is not at present practicable to co-ordinate them thoroughly without an unacceptable reduction of certain maximum punishments in one code or an equally unacceptable increase in the maximum punishments for similar offences in another. On the death penalty, however, the Home Affairs Committee thought the three Service codes should be brought broadly into line.

7. For over twenty years the Naval Discipline Act has differed from the Army and Air Force Acts in prescribing the death penalty for certain offences (e.g., sleeping upon watch in the presence or vicinity of the enemy). Some amendment of the death penalty provisions is unavoidable unless these disparities are to continue; and the opportunity has been taken to review the whole position.

8. The detailed effect on the Naval Discipline Act of the death penalty provisions for Service offences which I propose is shown in Appendix II. In broad outline it is as follows:—

#### *(a) Death Penalty for Offences other than Mutiny and Desertion to the Enemy*

- (i) The mandatory death sentence is abolished.
- (ii) Death is replaced as a maximum sentence by imprisonment exceeding two years in those cases where the lower maximum is already prescribed for similar offences in the Army and Air Force Acts, and also for certain other offences, if committed through cowardice. I understand that the Secretaries of State for War and Air intend to downgrade death penalties in their Acts for offences corresponding to these latter offences.

#### *(b) Death Penalty for Mutiny*

The maximum penalty is reduced in the Bill from death to imprisonment exceeding two years for a number of mutinous offences (see Appendix II, Sections 11 and 12). I understand that the Army and Air Councils are prepared to downgrade their corresponding penalties. In that event, the three Service codes will be broadly in line in regard to the death penalty except for (i) desertion to the enemy (discussed below) and (ii) the existing Naval offences of joining in a mutiny not accompanied by violence, otherwise than as a ringleader; or failing to use utmost exertions to suppress such a mutiny. At present the Army and Air Force Acts would expose to the death penalty a man guilty of offences corresponding to those at (ii) above, but the maximum under the Naval Discipline Act is imprisonment not exceeding two years. The other Services have proposed, and I agree, that here we should come into line by introducing in the Naval Discipline Bill the death penalty as the maximum for these offences when committed in time of war or on active service and, in the case of failure to suppress, when committed out of treachery. The Army and Air Force Acts would then be amended so as to remove the death penalty for the same offences when committed in other circumstances.

The concept of "active service" would be a novelty in the Naval Discipline Act, but the definition that I propose to adopt follows that in the other two Acts as closely as the different circumstances of the Navy allow.

#### *(c) Desertion to the Enemy*

- (i) In the Naval Discipline Act the maximum punishment for desertion to the enemy is death, and for desertion in other circumstances, imprisonment exceeding two years. In the Army and Air Force Acts desertion on active service (whether or not to the enemy) formerly carried liability to the death penalty, but this was abolished in 1930 after a free vote in the House of Commons against the views of the Army and Air Councils of the day.
- (ii) The Service Ministers recently considered these differing penalties in an endeavour to bring the three codes more into line. During the late war the Army in particular found that the absence of the death penalty for desertion on active service was a severe handicap, since convicted deserters secured removal from the risks of the

front line if their sentences were not suspended, and many whose sentences were suspended promptly deserted again. On purely military grounds, therefore, the Secretaries of State for War and Air would welcome restoration of the (maximum) death penalty for desertion on active service. This would mean restoring the death penalty in the Army and Air Force Acts for a much wider offence than the Naval offence of desertion to the enemy. The Army and Air Force regard desertion to the enemy as a much less serious problem, as it rarely occurs and, when it does, could be charged as a treasonable offence carrying the death penalty, if the deserter proceeded to serve with, or give assistance to, the enemy.

- (iii) An endeavour to reintroduce the death penalty for desertion on active service in the Army and Air Force Acts would probably meet with some opposition, especially if it were misconstrued as directed to the needs of the current Korean campaign, and this might apply even if it were limited specifically to desertion to the enemy. If it is considered politically undesirable to incur this risk, the Services could continue to differ by the retention in the Navy of the death penalty for desertion to the enemy, since the Naval Discipline Act will inevitably continue to differ in many smaller matters from the Army and Air Force Acts.
- (iv) If, nevertheless, the Cabinet consider that the Services must come into line on this point and that reintroduction of the death penalty into the Army and Air Force Acts is politically impossible, then there is no alternative to the abolition of the special provision for desertion to the enemy in the Naval Discipline Act.
- (v) I therefore ask the Cabinet to decide between the following alternatives:—

- (1) Maintenance of the present position, which means retention in the Navy of the death penalty for an offence not capital under the Army and Air Force Acts, or

- (2) Reintroduction into the Army and Air Force Acts of a maximum death penalty for desertion on active service, thus reviving a capital offence (desertion on active service) which is wider than the corresponding capital offence in the Navy, or

- (3) Introduction into the Navy, at the same time as reintroduction into the Army and Air Force, of the capital offence of desertion on active service. This would mean for the Navy repeal of the specific offence of desertion to the enemy, but a new death penalty for desertion on active service, or

- (4) Introduction of desertion to the enemy as a capital offence into the Army and Air Force Acts. This would not solve the problem outlined in sub-paragraph (ii), or

- (5) Repeal of the specific offence of desertion to the enemy in the Naval Discipline Act.

#### *Definition of Mutiny*

9. Both the Pilcher Committee (First Report, Recommendation 60) and its predecessor, the Army and Air Force Courts-Martial (Lewis) Committee (Cmd. 7608, paragraph 133 (v)) recommended that an attempt should be made to define by law the offence of mutiny. All three Services have hitherto worked on the definition in the Manual of Military Law, which states:—

“The term ‘mutiny’ implies collective insubordination, or a combination of two or more persons to resist or to induce others to resist lawful military authority.”

The Service Departments are agreed that it would be most unwise to whittle down this definition, and that a statutory definition is desirable. The following definition is proposed after consultation with the Law Officers:—

“‘Mutiny’ means a combination between persons subject to Service law to overthrow, resist or disobey lawful authority in any of His Majesty’s forces or in any armed forces co-operating with any of His Majesty’s forces, or to impede the performance of any duty or service in any such forces; and for the



purpose of this definition 'Service law' means the Naval Discipline Act, military law or the Air Force Act."

This definition is in terms wider than that in the Manual of Military Law because it provides specifically for mutiny against lawful authority in armed forces co-operating with this of His Majesty. This is a very necessary provision in view of the close integration with allied armed forces in modern warfare. The new definition is narrower in that it avoids using the words "collective insubordination," which are open to a very wide interpretation.

10. Even so, the proposed definition may encounter some opposition since the Lewis Committee considered that "mutiny" was capable of too wide an interpretation in present-day conditions. They may have envisaged a restriction of the working definition in the Manual of Military Law; but this would not be acceptable to the Service Departments.

11. I understand that if a definition on the above lines is approved, the Secretaries of State for War and Air will seek to enact a similar provision in the Army and Air Force Acts.

#### *Fines for Officers*

12. The Pilcher Committee (First Report, Recommendation 40) proposed that fines, recoverable from pay, should be introduced as a punishment for Naval officers. This recommendation was based on the absence of an adequate punishment for misconduct in time of war by temporary officers, on whom the present punishments, which may weigh heavily on permanent officers, have little effect. The Lewis Committee (paragraph 179) recommended that a penal rate of pay should be introduced for Army and Air Force officers. The Army and Air Councils are against this recommendation, but would not object if the Admiralty accepted the corresponding recommendation of the Pilcher Committee. In order to reduce the discrepancy between the Service codes which would thus occur, I propose that the punishment of fines for Naval officers to be introduced by the Bill should be available in time of war only. It is only fair to officers joining the Reserves in peacetime that they should be able to see, in this dormant statutory provision, to what further disciplinary sanction they would be subject if called up in war.

J. P. L. T.

*Admiralty, S.W. 1,*

*30th January, 1952.*

## APPENDIX I

**Membership of Naval Courts-Martial**

The following considerations have led the Admiralty to conclude that it would be a mistake not to continue to restrict the membership of courts-martial to officers of the Executive Branch:—

(1) A wider field of selection should not be adopted out of a desire for apparent uniformity merely because the other Services have no corresponding limitation. The whole structure of the Navy is different. The ship is a much more intimate and self-contained unit than the regiment and, for the maintenance of proper discipline, requires a greater concentration of powers of command and punishment. Naval officers of the Executive Branch are given wider powers of summary punishment than Army and Air Force officers, with the corollary that Army and Air Force courts-martial deal with a much wider range of offences than Naval courts-martial, which are, generally speaking, much more serious affairs.

(2) The system in force in the Army whereby one member of the accused's corps must normally sit on the court is not recommended by the Pilcher Committee itself for application to the Navy. The Committee considers that a court with a representative character is undesirable (First Report, paragraph 59).

(3) While a court-martial fulfils the dual functions of judge and jury, and granted that non-Executive officers would be quite capable of performing the latter function, it remains true that, with few exceptions, long experience in the maintenance of discipline, investigation of offences, and assessment of punishment belongs exclusively to the Executive officers.

(4) In the course of that experience, which starts at an early age, Executive officers acquire the instinct of putting themselves in the position of defending counsel. They obtain a deep insight into the working of the minds of accused ratings, so that they, and only they, can ensure that the accused is able to do himself full justice.

(5) The Pilcher Committee offered no criticism of the results of the existing arrangements. The admission of non-Executive officers would certainly not improve the standard of justice dispensed by courts-martial; it would merely reduce the number of members of the court trained and experienced in every aspect of its duties. The Committee's proposed changes, therefore, would produce no practical advantage and might well have disadvantages.

(6) Ratings are thoroughly used to the concentration of the power of punishment in the Executive Branch. They would probably not welcome participation of officers of other branches in that power as represented by courts-martial, and might conceivably regard it with some mistrust.

(7) It is important to maintain the prestige and position of the Executive Branch, since its members bear the whole responsibility for military command and fighting the ship and, consequently, for the lives and safety of the men.

(8) In certain circumstances the Pilcher Committee recommendation that two members of the court should normally be non-Executive officers would be difficult to put into practical effect. There are extremely few officers of the non-Executive Branches above the rank of Commander in the seagoing Fleet. The Supply Branch will have plenty to do in carrying out the functions in relation to courts-martial already allotted to them, and in time of war the senior officers of the Engineering and Electrical Branches will usually be fully occupied when the ship is in harbour. Except therefore when suitable non-Executive officers can be made available from shore, it would be hard, especially in war, to find two non-Executive officers of adequate rank to sit on the court when the accused himself was a high-ranking officer.

(9) Although Royal Marine officers may sit as members of Army courts-martial, to admit them to membership of Naval courts-martial would have little practical effect, because it is very rare for a Royal Marine officer of adequate seniority to serve afloat. A Royal Marine officer serving ashore could not normally sit on a Naval court-martial, because he would usually be subject to the Army Act.



## APPENDIX II

## Capital Offences

The following table shows in Column 4 the effect, if any, on the Act of the provisions in the Bill affecting the death penalty in respect of offences other than offences against the civil law of the country. Only those offences for which the death sentence is prescribed in the Act or the Bill are shown against each section. The table deals with amendments affecting punishments only, and does not purport to show that, merely in the process of bringing the code up to date, what are in form new capital offences are created by the Bill, *e.g.*, under S.2 by an amendment to cover persons in command of aircraft as well as persons in command of ships. In Columns 3 and 4 the punishment shown is the maximum except where it is stated to be mandatory. "Imprisonment" means imprisonment exceeding two years except where otherwise stated:—

1	2	3	4
NAVAL DISCIPLINE ACT, SECTION	OFFENCE	PRESENT MAXIMUM PUNISHMENT	PROPOSED MAXIMUM PUNISHMENT
2 (a)	Misconduct in action by a <u>person</u> in command: If acting traitorously ... .. If acting from cowardice ... ..	Death (mandatory) Death	Death Imprisonment
3	Failure by officer to pursue enemy or assist friend, or improperly forsaking his station: If acting traitorously ... .. If acting from cowardice ... ..	Death (mandatory) Death	Death Imprisonment
4	Delaying or discouraging action or service: If acting traitorously ... .. If acting from cowardice ... .. Deserting post } in presence Sleeping on } or vicinity watch } of the enemy	Death } Death } <sup>(b)</sup> Death	Death Imprisonment Imprisonment
5	Failure by a person other than a Commanding Officer to use utmost exertions to carry orders of superior officers into execution when ordered to prepare for action or during action: If acting traitorously ... .. If acting from cowardice ... ..	Death (mandatory) Death	Death Imprisonment
6	Spying for the enemy ... ..	Death	Death
7	Holding traitorous correspondence with } or giving intelligence to enemy ... } Failure to disclose information received } from enemy ... .. } Relief of enemy with supplies ... .. }	Death	Death
10	Taking part in mutiny accompanied by violence or threat of violence ... .. Failure to use utmost exertions to suppress or prevent such mutiny, actual or intended, if acting traitorously ... .. Inciting to such mutiny, whether actual or intended ... ..	Death Death Death	Death Death Death
11 (a)	Taking part as a ringleader in mutiny not accompanied by violence or threat of violence: In war or on active service ... .. Otherwise ... .. Taking part in such a mutiny otherwise than as ringleader: In war or on active service ... ..	Death } Death } <sup>(c)</sup> Imprisonment not exceeding 2 years (c) (d)	Death Imprisonment Death

1	2	3	4
NAVAL DISCIPLINE ACT, SECTION	OFFENCE	PRESENT MAXIMUM PUNISHMENT	PROPOSED MAXIMUM PUNISHMENT
11 (a) (contd.)	Failure to use utmost exertions to suppress or <u>prevent such mutiny whether actual or intended:</u> <u>In war or on active service, if acting traitorously</u> ... ..	Imprisonment not exceeding 2 years (b) (c) (d)	<u>Death</u>
	Inciting to such mutiny <u>whether actual or intended:</u> <u>In war or on active service</u> ... .. Otherwise ... ..	Death } Death } (c)	Death Imprisonment
12	Seduction from duty or allegiance by a person subject to the Act: <u>In war or on active service</u> ... .. Otherwise ... ..	Death } Death } (c)	Death Imprisonment
13	Seduction from duty or allegiance by a person not subject to the Act, being on board any ship of His Majesty ...	Death	Death
19	Desertion to the enemy ... ..	Death	Death (e)
30	Failure to take care of and defend ships under convoy ... ..	Death	Section repealed
34	Arson in dockyards, shore establishments and ships ... ..	Death	Death

NOTES

- (a) The words underlined in this section occur in the Bill but not in the Act.
- (b) The present section does not distinguish between motives.
- (c) The present section does not distinguish between circumstances of peace, war or active service.
- (d) The maximum punishment for this offence under the Army and Air Force Acts (Ss. 7) is already death.
- (e) See paragraph 8 (c) of Memorandum.



CONFIDENTIALC. (52) 19COPY NO. 401ST FEBRUARY, 1952

CABINET

THE NAVAL DISCIPLINE BILLMemorandum by the Attorney-General and the  
Solicitor-General

Certain of the First Lord's proposals in his paper C. (52) 18 appear to us likely to give rise to considerable controversy in the House of Commons. We desire, therefore, to draw attention to the following points.

1. Composition of Naval Courts Martial

(1) The First Lord's proposal means the rejection of a main recommendation by the Pilcher Committee. Their Report (Cmd. 8094, paragraphs 53 - 59) shows that they were fully aware of and rejected the arguments now advanced for confining membership of Naval Courts Martial to Executive Officers.

(2) All the members of the Pilcher Committee agreed that officers of the non-executive branches, officers of the Royal Marines and of the Reserves were not less competent than executive officers to arrive at a proper conclusion as to the guilt or innocence of the accused. (Cmd. 8094, paragraph 55).

(3) The Committee with one dissident recommended that the majority of the Courts should be executive officers, in view of their particular qualifications and the part their experience enables them to play in determining the correct sentence: that where suitable officers were available a minority of the Court should be selected from non-executive officers (excluding Chaplains), officers of the Royal Marines and of the Reserves.

They did not recommend that two members should normally be non-executive officers but they expressed the opinion that the governing consideration should be the selection of the most suitable officers irrespective of the branch or unit to which they belong. (Cmd. 8094, paragraph 64).

(4) The Committee recommended that a Captain who had decided not to award a summary punishment but to remand the accused for court martial, should no longer be under a duty to prosecute the accused, a member of his crew, before the Court Martial. (Cmd. 8094, paragraph 95). This unanimous recommendation has been rejected (Cmd. 8141, page 22).

(5) The conduct of such a prosecution by a Captain before a Court consisting solely of his fellow executive officers appears to us difficult to justify on the arguments put forward in the First Lord's memorandum. The Pilcher Committee's recommendation was made in order that the administration of justice in the Navy might appear to be and in fact be widely based. The adoption of their recommendation would be some safeguard against any idea that the primary function of Courts Martial is to impose sentences heavier than those which can be imposed summarily.

(6) As under the Pilcher Committee's recommendation, the executive officers would, if they agreed, over-rule the other members both as to verdict and sentence, we should find it difficult to argue that the change they proposed might have ill effects upon discipline.

2. Death Penalty

We feel it will be very difficult to justify the increase for certain mutiny offences of the maximum punishment of two years' imprisonment to death, particularly when the maximum penalty for offences which may be more serious is being reduced from death to imprisonment.

3. Mutiny

The proposed definition of mutiny is considerably wider than that contained in the Manual of Military Law, in that it includes a combination "to impede the performance of any duty or service". This is intended to cover a combination of service men to 'go slow'.

We agree that this extension is justifiable, but it will need careful handling in the House.

L.H.  
R.E.M-B

Royal Courts of Justice, W.C.2.,

1ST FEBRUARY, 1952.



CONFIDENTIALC. (52) 20COPY NO. 645TH FEBRUARY, 1952CABINETPAID HOLIDAYS FOR GOVERNMENT INDUSTRIAL WORKERSMemorandum by the Lord President of the Council

I have been asked by the Home Affairs Committee (H.A. (52) 4th Meeting, Minute 6) to bring before the Cabinet the question of the length of the paid holidays of industrial workers in Government establishments.

2. The number of these workers (e.g. in dock yards, Royal Ordnance Factories, etc.) is some 400,000, of whom a substantial proportion are members of the building, engineering, ship-building and electrical trades. For some time now their conditions of employment have included one week of paid holiday a year, in addition to paid leave on the six bank holidays and on three traditional "privilege" holidays normally allowed at Christmas, Easter and on the King's Birthday. (These three extra holidays are reduced to  $2\frac{1}{2}$  in the case of those who work only a five day week). For some time the trade unions have been pressing strongly for an additional week of paid holiday. The Labour Government, though sympathetic to this claim and though they indicated that in principle they accepted it, resisted its immediate application because of its adverse effects on production and because a Government concession in this matter might be expected to spread rapidly. They also justified their attitude on the ground that the Government must follow private practice and that until the autumn of last year only slightly more than 40% of workers outside Government service had two weeks of paid holiday.

3. The situation has now changed. The engineering industry conceded the second week's holiday in the autumn of 1951 and the miners, though they have not been given the second week in 1952, have been given cash compensation for its deferment. The present situation is that outside Government employment some 60% of workers enjoy two weeks of paid holiday and if the miners are included some 65%. Furthermore, the second week has now spread to all the trades in which the Labour Government wished to avoid encouraging it. The claim for Government workers is arbitrable, and though the unions have hitherto been unwilling to test the matter in arbitration, they are in the changed circumstances likely to do so if no offer is made to them and to gain some concession by it.

4. The alternatives open to the Government are the following:-

- (i) to refuse to make any offer;
- (ii) to concede the claim in full for application in 1952;
- (iii) to concede it for 1953 with or without an offer of cash compensation for the withholding of it in 1952;

- (iv) to make a compromise offer of three extra days of paid holiday, on the ground that in private enterprise those workers who already have two weeks of paid holiday normally have only six paid bank holidays in addition, whereas the Government workers with their "privilege" holidays have  $8\frac{1}{2}$  or 9 days of paid holiday in addition to the present week.

5. Arguments in favour of some concession are:-

- (a) That the unions are likely to be able to obtain a concession by arbitration.
- (b) That industrial relations will be seriously damaged if the Government tries to withhold "fair" conditions which obtain for the majority of workers outside Government employment.
- (c) That essential recruitment, e.g. of engineering workers for the defence programme, will be hampered if those same workers can obtain better conditions in non-Government employment. The settlement reached in the engineering industry last autumn included both pay improvements and the second week's holiday. The Government have adopted the pay improvements for their workers but have not so far accepted the other half of the settlement.
- (d) That the long-term effects of conceding a full fortnight of paid holiday are likely to be good rather than bad; and that even in the short-term the effects of a concession on production are not likely to be serious, since many of the workers concerned already take a second week of holiday without pay.

6. The arguments against any concession are as follows:-

- (a) In present economic circumstances it is wrong for the Government to be handing out improvements in conditions of employment which could have a prejudicial effect on production; if they do so, the tendency for some members of the public to regard the present crisis as unreal will be increased.
- (b) A move by the Government in this matter is likely to precipitate rapid extension of the second week of paid holiday throughout industry. The 35% of workers still entitled only to one week include some important trades and particularly the dock workers. If the dock workers obtain a second week's holiday the present overloading of port facilities in the handling of both imports and exports will be seriously aggravated.
- (c) While production in Government establishments may only be directly reduced so far as the workers at present limit themselves to one week of actual holiday, the financial cost will amount to an extra week's wages for everyone. This will total between two and three million pounds a year.
- (d) There are in the Post Office 130,000 non-industrial workers entitled to one day of leave per year less than the entitlement which the industrial workers will enjoy if they obtain the full concession. These postal workers would have a case for at least one day more. To concede this would mean adding 400 staff - an addition which would cut seriously into the reductions which the Postmaster-General is expecting to make.



7. The Home Affairs Committee have examined the problem carefully. Most of us felt that the Government should not simply maintain a firm refusal of the whole claim. To do so would merely provoke arbitration proceedings in which the Government would probably lose, and the resulting damage to industrial relations would adversely affect the attitude of the workers towards other measures (e.g., the dilution of labour) required to increase production. We also felt that it would be undesirable to offer cash compensation in lieu of the extra holiday in 1952; this might provoke demands in other quarters for compensation for failure to restore various pre-war privileges. We were not so clear as to the other possibilities. There was some support for an offer of an additional three days of paid holiday. The Financial Secretary to the Treasury, in particular, urged that this course would be less damaging to the Government's campaign to induce workers to produce more. Even if the offer were not accepted, it would place the Government in a stronger position in arbitration since, with the three extra days, Government employees would be as well off as the majority of other industrial workers and the "Fair Wages" principle could not be invoked against the Government. But there was some opinion that such an offer would be unlikely to solve the problem for long; that it would be regarded as mean and inadequate, particularly as the point had never been taken up on behalf of the Government in any of the previous protracted negotiations; and that it would be damaging to the Government if it were rejected and if a subsequent arbitration resulted in better terms being given.

8. In the upshot, though there was some support for the view that the full concession should be made forthwith, the balance of opinion in the Home Affairs Committee appeared to favour the view that the Government should offer the full concession for application in 1953; but that they should resist its application in 1952, leaving the trade unions to test the matter in arbitration if they thought fit. We were advised that there is some prospect, though by no means a certainty, that the trade unions might accept such an offer and refrain from seeking to obtain the concession in arbitration.

9. The Home Affairs Committee wished to submit the matter to the Cabinet accordingly.

W.

Privy Council Office, S.W.1.,

5TH FEBRUARY, 1952.

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CONFIDENTIAL

C.(52) 21

COPY NO. 64

6TH FEBRUARY, 1952

CABINET

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PAID HOLIDAYS FOR GOVERNMENT INDUSTRIAL WORKERS

Memorandum by the Chancellor of the Exchequer

The Lord President's memorandum (C.(52) 20) records that the balance of opinion in the Home Affairs Committee appeared to be in favour of conceding the full demand for a further week's holiday in 1953. I wish to urge on my colleagues that this policy is open to a number of objections.

2. The paramount need to-day is to get the country to work harder and longer. To give a further week off to Government staff even in 1953 will, I fear, have a bad psychological effect. It will be misinterpreted (in some cases deliberately) as a sign that the Government is not in earnest and as an open invitation to those trades which still get one week only to press for the same concession.

3. In this situation I believe that we should do better to offer no more than three extra days, this concession starting this year. If we do this we cannot be accused of flouting the Fair Wages principle. Government industrials already receive 9 (or in some cases  $8\frac{1}{2}$ ) odd paid days of holiday as compared with 6 in outside industry and psychologically the offer of three days will, I think, be less serious than that of a full week. Even if this offer results in the Trade Unions taking the case to arbitration and winning, at least we shall not have volunteered the extra week.

R.A.B.

Treasury Chambers, S.W.1.,

6TH FEBRUARY, 1952.



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CONFIDENTIAL

C.(52) 22

COPY NO. 48

6TH FEBRUARY, 1952

CABINET

FORM OF ACCESSION PROCLAMATION

Note by the Secretary of the Cabinet

The traditional form of the Accession Proclamation is shown in the attached draft 'A'. This is not wholly in accord with modern constitutional conditions in the Commonwealth. Thus -

- (i) the phrase "Imperial Crown" is likely to be associated with the "Indian Empire";
- (ii) "Ireland" is a survival from the days when the South owed allegiance to the Crown and was a member of the Commonwealth;
- (iii) ~~Canada~~ objects to the phrase "British dominions beyond the Seas";
- (iv) the various references to "allegiance" date from before the time when India, though ceasing to owe allegiance to the Crown, decided to remain a member of the Commonwealth and to acknowledge the King as "Head of the Commonwealth" and the symbol of the free association of its peoples.

It is known that, if the Proclamation followed the traditional form, the representative of India would not feel able to sign it.

2. An alternative form of Proclamation, devised to avoid the foregoing difficulties, is attached - draft 'B'.

3. The points of difference between the two drafts are indicated by underlining.

(Signed) NORMAN BROOK

Cabinet Office, S.W.1,

6TH FEBRUARY, 1952.

DRAFT 'A'

"Whereas it hath pleased Almighty God to call to His Mercy our late Sovereign Lord King George the Sixth of Blessed and Glorious Memory, by whose Decease the Imperial Crown of Great Britain, Ireland and all other His late Majesty's Dominions is solely and rightfully come to the High and Mighty Princess Elizabeth Alexandra Mary: We, therefore, the Lords Spiritual and Temporal of this Realm, being here assisted with these of His late Majesty's Privy Council, with Numbers of other Principal Gentlemen of Quality, with the Lord Mayor, Aldermen and Citizens of London, do now hereby with one Voice and Consent of Tongue and Heart, publish and proclaim, that the High and Mighty Princess Elizabeth Alexandra Mary is now, by the Death of our late Sovereign of Happy Memory, become our only lawful and rightful Liege Lady Elizabeth the Second by the Grace of God of Great Britain, Ireland and the British dominions beyond the Seas Queen, Defender of the Faith: To whom we do acknowledge all Faith and constant Obedience, with all hearty and humble Affection; beseeching God, by whom Kings and Queens do reign, to bless the Royal Princess Elizabeth the Second with long and happy Years to reign over us."



DRAFT 'B'

"Whereas it hath pleased Almighty God to call to His Mercy our late Sovereign Lord King George the Sixth of Blessed and Glorious Memory by whose Decease the Crown is solely and rightfully come to the High and Mighty Princess Elizabeth Alexandra Mary: We, therefore, the Lords Spiritual and Temporal of this Realm, being here assisted with these of His late Majesty's Privy Council, with representatives of other countries of the Commonwealth, with Numbers of other Principal Gentlemen of Quality, with the Lord Mayor, Aldermen and Citizens of London, do now hereby with one voice and Consent of Tongue and Heart publish and proclaim that the High and Mighty Princess Elizabeth Alexandra Mary is now, by the Death of our late Sovereign of Happy Memory, become Queen of this Realm and of all other Her Realms and Territories, and Head of the Commonwealth, to whom Her lieges do acknowledge all Faith and constant Obedience, with all hearty and humble Affection; beseeching God by whom Kings and Queens do reign, to bless the Royal Princess Elizabeth the Second with long and happy Years to reign over them."

*Printed for the Cabinet. February 1952***CONFIDENTIAL****Copy No.****C. (52) 23****67***7th February, 1952***CABINET****POLITICAL SITUATION IN THE GERMAN FEDERAL REPUBLIC****MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS**

My colleagues may like to have the following brief review of certain long-term internal trends in Germany, of which account must be taken in entering into the proposed new contractual relationship with Germany.

After the Federal elections of 1949 the Christian Democrats and the Social Democrats each held about one-third of the seats in the Lower House. Hopes that they might form a stable coalition proved vain, largely owing to the clash of personalities between Adenauer and Schumacher. The parties forming the Government (the Christian Democrats in association with two moderate Right-wing parties, the Free Democratic Party and German Party) hold just over half the seats.

Since the Christian Democratic Party is itself a heterogeneous grouping, Dr. Adenauer's internal policy has necessarily been one of compromise. Concessions to the views of his Right-wing coalition partners have partially alienated the Left wing of his own party, which would prefer compromise with the Social Democrats. The instability of the Government has been increased by the losses of the Christian Democrats in the Land (Provincial) elections since 1949 and by the emergence of the Refugee Party, of the semi-Nazi Socialist Reich Party and of the League of German Soldiers.

The Refugee Party has won marked successes in those States with numerous refugees. It is a pressure group representing the dispossessed, especially those from the eastern territories, and a focus for unhealthy nationalist and irredentist tendencies. The political moderation it has so far shown might cease if economic improvement were checked.

The Socialist Reich Party gained over 350,000 votes in the Lower Saxony Land elections in May 1951, becoming a possible focus for the disunited extreme Right-wing splinter parties. By playing down its extremism the party has strengthened its position. Although the Federal Government has petitioned the Constitutional Court to ban it (and also the small Communist Party), some respectable parties, including Dr. Adenauer's coalition partners, are tending in some districts to regard it as a possible ally.

The League of German Soldiers, a roof organisation for various ex-soldiers' associations, was created in November 1951; it is at the moment dominated by a group of extreme Right-wing nationalists. The moderate Right-wing parties hope to have a moderating influence on the League, but it is equally likely that the influence of the League will work in favour of the extremists in these parties.

The tendency of Dr. Adenauer's coalition partners to be pulled gradually further towards the Right, subjects the Government to increasing strain. Dr. Adenauer's unique influence has so far held it together, but as the next Federal elections in July 1953 approach, the chances of reconstituting the present coalition diminish and the risk of its replacement by a less acceptable Government increases.

Analyses of recent Land elections suggest that, if present trends are maintained, the Christian Democrats would be able to form an effective majority Government after the next Federal elections only by extending the present coalition to include either some near-Nazi groups or the Refugee Party or both. The Social Democrats would not at present seem able to form a Government even with the Refugee Party,



but, if present trends were intensified, might be able to do so in 1953. After autumn 1953 we may therefore be faced either with a Government including the extreme Right or with a Social Democratic Party Government. There is fortunately little prospect of the Communists strengthening their weak position.

The situation is thus not without its dangers, more especially as there are no obvious leaders in sight capable of taking over from either Adenauer or Schumacher, whose personalities now dominate German politics. We are no longer in a position to influence events by direct intervention. But there are important factors which should mitigate the dangers.

The present danger signs are for the most part restricted to a few mainly agricultural areas. The presence of large numbers of allied troops is a stabilising influence. The economy is still expanding and would be further stimulated by a decision to allow some defence production. The integration of Germany into the Western community, if successfully carried forward, should strengthen the responsible and moderate elements. The trade unions have shown themselves a stable element and have remained independent of the Social Democratic Party. Allied educational activities if maintained on an adequate scale can still have a healthy effect. Above all the continued division of Germany and the presence of Soviet troops on the Elbe should make for restraint and common sense.

A. E.

*Foreign Office, S.W. 1,  
7th February, 1952.*

CONFIDENTIAL

C.(52) 24

COPY NO. 59

6TH FEBRUARY, 1952

CABINET

PUBLIC OBSERVANCE OF THE KING'S FUNERAL

Memorandum by the Chancellor of the Exchequer

I held a meeting tonight with the Home Secretary, the Secretary of State for Scotland, the Secretary of State for Co-ordination of Transport, Fuel and Power, the Minister of Health, the Minister of Labour and National Service, and the President of the Board of Trade. This paper records our recommendations to the Cabinet.

2. Attached at Annex A is the official statement issued by the Home Office in 1936 about the observance of King George V's funeral.
3. This gave considerable discretion and practice varied. Some businesses, mainly in London, closed for the day, others, e.g. the banks, closed between 11 a.m. and 2 p.m., while in many factories only a two minute silence was observed. All Government establishments, on the other hand, were, somewhat inconsistently with the general sense of the Home Office statement, closed throughout the day. The schools were also closed.
4. We can see no reason why Government establishments, including dockyards and industrial establishments in all parts of the country, should be closed while a different practice is pursued by industry generally. Nor do we see why the schools should be shut. We think that the right course would be a general observance of a two minutes silence and we attach at Annex B the draft statement which, subject to approval by The Queen, we recommend might be issued.
5. While it would not be necessary to say so in the public announcement, we recommend that Government establishments on the line of route of the funeral procession should be closed to the public.
6. We recommend these arrangements irrespective of whether the funeral is held on Friday, the 15th, or Saturday, the 16th, although from some points of view we see some advantages in the latter date.

R.A.B.

Treasury Chambers, S.W.1,

6TH FEBRUARY, 1952.



ANNEX A

STATEMENT ISSUED BY THE HOME OFFICE IN 1936

It is officially announced that Tuesday next, the day of the late King's funeral, will not be proclaimed as a day of public mourning, since it is felt that the suspension of business activity involved would probably cause widespread hardship and loss.

His Majesty's Ministers have ascertained that it is His Majesty's wish that the people of this country should, on Tuesday, mark the solemnity of the occasion of the late King's funeral in such manner as each may think appropriate according to the circumstances in which he finds himself, for His Majesty knows well that the late King will be constantly in the thoughts of His people throughout the day.

His Majesty's Ministers would suggest the observance of two minutes' silence during the period of the funeral service at St. George's Chapel, Windsor. The exact time will be announced tomorrow: it will be shortly after midday.

His Majesty's Ministers believe that this suggestion will most fully accord with the feelings of His Majesty's subjects.

ANNEX BPROPOSED STATEMENT FOR ISSUE BY THE HOME SECRETARY

It is officially announced that, in accordance with precedent, [ ] the day of the late King's funeral, will not be proclaimed as a day of public mourning, and that there will be no general suspension of work.

Her Majesty's Ministers have ascertained that it is Her Majesty's wish that the people of this country should, on [ ] mark the solemnity of the occasion of the late King's funeral, for Her Majesty knows well that the late King will be constantly in the thoughts of the people throughout the day.

Her Majesty's Ministers desire that a two minutes silence should be observed at [ noon ] during the period of the funeral service at St. George's Chapel, Windsor.

Her Majesty's Ministers believe that this suggestion will most fully accord with the feelings of Her Majesty's subjects.



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C.(52) 25

COPY NO. 63

7TH FEBRUARY, 1952

CABINET

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ERECTION OF A MEMORIAL AT DUNKIRK

Memorandum by the Secretary of State for War

The Cabinet on 11th December last (C.C.(51) 16th Conclusions, Minute 3) invited me to provide:-

- (i) drawings of a memorial the Imperial War Graves Commission were proposing to erect at Dunkirk at a cost of £23,000; and
- (ii) an alternative design suitable for a national memorial commemorating the Dunkirk operation at a cost of about £100,000.

These drawings are now ready.

2. I was also invited to provide information about the precedents for raising funds for such memorials by public subscription. In the past funds have been raised by this means only for regimental memorials. For example, the Calais Memorial to the Green Jackets was erected with funds collected among the regiments. The Commission have power under their charter to receive donations and bequests though they have only received £4,000 to £5,000 altogether. However, the Imperial War Conference in June, 1918, agreed that no public appeals should be made for funds.

3. I now invite my colleagues to decide whether the Commission should proceed with the more modest memorial or whether funds should be provided or obtained by public subscription for a national memorial.

A.H.

War Office, S.W.1,

7TH FEBRUARY, 1952.



CONFIDENTIAL

C.(52) 26

COPY NO. 60

8TH FEBRUARY, 1952

CABINET

THE STONE OF SCONE

Memorandum by the Lord Chancellor and  
the Secretary of State for Scotland

Before the late King's death we had been proposing to bring before the Cabinet the question of the Coronation Stone. The Queen's accession now gives this matter a new importance and urgency.

2. The Stone is at present in the custody of the Dean of Westminster as head of the governing body of the Abbey, but it has not been put back in the Coronation Chair since it was stolen on Christmas Day, 1950.

3. In December, 1951, the Dean of Westminster approached us with a request that the Government should announce their intention soon in regard to the Stone, and said that he was most anxious that it should be replaced in the Chair without delay. We recommend that this should be done at an appropriate date after the Funeral of His late Majesty.

4. Although the early history of the Stone of Scone is disputed, the Lord Chancellor has no doubt that the right of disposal of the Stone is a prerogative right of Her Majesty which she can exercise unfettered by the charter or statutes of Westminster Abbey. But we both take the view that Her Majesty should be advised, as a matter of constitutional propriety, to act on the advice of Her Ministers in regard to its disposal.

5. The theft of the Stone in 1950 was strongly condemned by all responsible people in Scotland as well as in England and Wales. At the same time, there is a body of opinion in Scotland which would welcome the return of the Stone to that country. It is true that the General Assembly of the Church of Scotland decided last year to make no recommendation on the subject. But a proposal made during the debate on Lord Brabazon's Motion in the House of Lords on 9th May, 1951, that the Stone should be returned to Scotland and be brought down to Westminster for each Coronation ceremony attracted at that time some support. Against the adoption of that proposal, however, is the argument that the Stone has been in the Abbey for 600 years and has now acquired from its use at Coronations an **Imperial significance** which makes it appropriate to keep it in the Abbey where the Coronation takes place. We think that this argument should prevail.

6. We consider that nothing is to be gained by postponing a decision about the disposal of the Stone. On the contrary, we should avoid having any controversy about the Stone at or about the time of the Coronation. Before the Stone is put back, however, it might be desirable to sound the Opposition as to their attitude to this course. The Government's intention to advise Her Majesty in this sense might thereafter be stated by way of Question and Answer in Parliament.

7. We have had the benefit of the Lord Privy Seal's advice and he agrees with our recommendations.

SIMONDS  
J.S.

8TH FEBRUARY, 1952.



CONFIDENTIAL

C.(52) 27

COPY NO. 63

12TH FEBRUARY, 1952

CABINET

STEEL EXPORT PRICES

Memorandum by the Chancellor of the Exchequer, the  
President of the Board of Trade and the Minister of Supply

The Prime Minister has asked us to report whether this country has been exporting steel at a price well below that charged by many of its competitors, and possibly even lower than the price we are paying for United States steel. This matter has been examined in consultation with representatives of the Iron and Steel Federation, and our conclusions are set out below.

2. Prices of steel exports are not controlled by the Government. They are determined by the steel industry solely on commercial grounds.

3. It is true that, in the fairly recent past, we have been selling part of our exports of steel at prices lower than world prices for comparable items, and also below the cost of some of our imports of steel. But this was due to special circumstances. During 1950 the steel position became much easier, and the industry entered into substantial export contracts at prices which were then reasonable, and, indeed, above those quoted by some of its competitors. Early in 1951 the Government restricted severely exports of steel, with the result that these contracts could not be fulfilled in time, and exports have had to be made under them at low prices during 1951. Part of these orders is still outstanding.

4. In April, 1951, the late Government urged the steel industry to put their export prices up to the world level so far as possible, having regard to their own judgment of their long term commercial interest. The industry undertook to do this and the industry's present policy is to charge what the market will bear, subject to existing contracts. About 300,000 tons remain outstanding on the contracts at lower prices. It would not be practicable to vary these contracts now.

5. The price of our steel imports from the United States, if we take the landed cost of the steel when received here, is £19 to £20 a ton above the corresponding price of home produced steel for sale in the home market. From sources other than the United States steel is being imported at slightly higher prices than this.

6. Considering our steel exports as a whole, we are currently receiving on the average a price which will exceed the average price in the home market, after the proposed new prices are introduced, by about £20 a ton.

7. On our American imports of steel, therefore, we get a slight net advantage from the transaction in terms of the steel itself. On our other steel imports we get very little direct foreign exchange advantage on the steel itself. But in both cases we make a balance of payments gain in that we import cruder forms of steel and export more finished forms. We get paid for converting the steel and also for freight charges.

8. The indirect advantage of these imports is, however, enormous. Without them we should either have to reduce our exports of steel still further, or to reduce our use of steel at home for defence, exports of metal goods, or essential investment. The cost of our home produced steel would be still greater if the steel finishing industry had to run at a level far below its capacity because of lack of steel. Our ability to export steel is of immense importance both in bilateral trade negotiations and to our relations with the Commonwealth. We need not emphasise the long term importance to this country of maintaining its position as a major exporter of steel.

9. We are satisfied that, in general, the steel industry is not now charging less to foreign buyers than its competitors, except that there are certain foreign markets which the steel industry is not entering where higher prices might be obtained. This is because from a national point of view it is more desirable to send the steel to markets on which we rely for essential imports. There are also cases in which foreign competitors can offer early delivery, and thereby command a fancy price. These are the only exceptions to this general proposition.

10. The present position, therefore, appears satisfactory, but it may well be fluid. Arrangements have therefore been made for this question to be reviewed at fairly short intervals, in conjunction with the steel industry. The Ministry of Supply will be responsible for initiating these reviews.

R.A.B.  
P.T.  
D.S.

12TH FEBRUARY, 1952



CONFIDENTIAL

C.(52) 28

COPY NO. 579TH FEBRUARY, 1952CABINETAMENDMENT OF THE GOLD COAST CONSTITUTIONMemorandum by the Secretary of State for the Colonies

I wish to seek my colleagues' advice on certain proposed amendments to the Gold Coast constitution.

2. I will outline briefly the history behind the present constitution. There is a deep fund of goodwill in the Gold Coast towards the United Kingdom and the British connection is highly valued. The aim of all political parties is full self-government within the Commonwealth - not outside it. But nationalist feeling is strong and has been rising rapidly in strength since the war. It was the Government's failure properly to assess the strength of nationalist aspirations, and to retain the confidence of the people and the initiative for ordered constitutional advance, that was the root cause of the riots and bloodshed of February/March, 1948; though there were economic and social discontents also.
3. The Watson Commission, which enquired into the disturbances, recommended outside its terms of reference in August, 1948, a number of constitutional changes and reforms. It was thought fit to publish this document and the then Government agreed in principle with the objectives of the main recommendations but decided that they must first be considered by representatives of the Gold Coast people. Hence the establishment towards the end of 1948 of the Committee on Constitutional Reform under Mr. Justice Coussey, which consisted entirely of Africans. This committee presented a report in August, 1949, which was accepted in broad outline by the Government the following October. The existing constitution embodies the results of Coussey's work.
4. A new Governor, Sir Charles Arden-Clarke, was appointed in the summer of 1949. He dealt firmly and successfully with an attempted challenge in January, 1950, by the Convention People's Party to the constitutional proposals which took the form of a demonstration of "positive action" for the immediate grant of "Dominion status", and his action had the support of responsible Gold Coast opinion.
5. The present constitution came into force at the beginning of 1951. It provides for a Legislature consisting almost entirely of directly or indirectly elected African members and an Executive Council (equivalent to a Cabinet) consisting of the Governor as President, three ex-officio members (at present senior European officials, namely the Chief Secretary who is Minister of Defence and External Affairs, and the Ministers of Finance and Justice), and eight African Ministers appointed from the Legislature by the Governor in his discretion but subject to a favourable resolution of the Legislature. The Executive Council is the principal instrument of policy; the Governor is required to consult it on all important issues, and must act in accordance with its advice unless he considers it expedient in the interests of "public faith, public order or good government" not to do so.

6. The constitution also provides for a "Leader of Government Business" in the Legislature who is chosen by the Members of the Executive Council from among their own number. He ranks in precedence after the Governor and Chief Secretary. The present Leader is Dr. Kwame Nkrumah, whose Convention People's Party took office after winning a large majority at the elections last February.

7. The following changes are proposed:-

- (a) The title of Leader of Government Business should be changed to Prime Minister.
- (b) The Prime Minister would be chosen by the Governor in his discretion but submitted to the Legislature for its approval.
- (c) The Executive Council should have the alternative title of the Cabinet.
- (d) The Prime Minister should rank, in Cabinet, next in order of precedence after the Governor (or Officer administering the Government) and would preside in Cabinet in his absence.
- (e) The Governor would act after consultation with the Prime Minister, not in his sole discretion, in nominating for the Legislature's approval the African Ministers and in assigning to them responsibility for Departments.

8. I wish to emphasise that these changes are essentially changes of name rather than of substance: they do not go materially beyond recognising what is already the de facto position in the Gold Coast.

9. Dr. Nkrumah was in prison fourteen months ago for sedition and incitement to riot in the "positive action" campaign. Though he would not be the first Prime Minister in a Colony - Malta has had a Prime Minister for twenty years - he would be the first Negro Prime Minister in the Commonwealth. Dr. Nkrumah and the Executive Council recently showed some signs of being run off their feet by the back benchers of the party, though they now appear to have regained control.

10. Moreover, if these changes are made in the Gold Coast, there may be repercussions elsewhere in the Colonial Empire. In Nigeria the new federal constitution has got off to a good start. Nevertheless, the politicians in the West, and possibly also in the East, may feel impelled to press that Nigeria or at any rate the West and East should follow the Gold Coast lead. But the Governor, who has flown here for consultation, tells me that the conservative North would be resolutely opposed to any further constitutional advance for a long time to come (as would he himself) and that he would resist such pressure, though he cannot of course be sure of being able to do so successfully. Apart from Nigeria, the grant of the title of Prime Minister in the Gold Coast might lead to an immediate request for a similar title in Jamaica which already has a Ministerial system. Trinidad is unlikely to want a Prime Minister. It is unlikely that any other Colony will be affected.

11. In these circumstances, I decided to call home the Governor of the Gold Coast, Sir Charles Arden-Clarke, for consultation and I had a long meeting with him. He has a reputation of being one of the aces in the Colonial Office pack. He has certainly handled the Gold Coast constitutional development in a masterly fashion: he has obtained a great personal hold over Dr. Nkrumah and the African Ministers and has eased the delivery of the new constitution through its birth pangs. When I saw Sir Charles Arden-Clarke his advice



could hardly have been clearer. He said:

- (a) that if this titular concession were made there was at least a chance of delaying further constitutional changes in order to allow time for the African Ministers to gain a further sense of responsibility and knowledge of government, and time perhaps for an opposition party to develop;
- (b) that if we did not make these concessions he did not think he could hold back demands for self-government and Dominion status now. The platform slogan upon which Dr. Nkrumah's party won the election was "self-government now"; and it has now been adopted by his rival, Dr. Danquah, who does not lose any opportunity of attacking him for abandoning it. If we refused he said substantial numbers of troops would be required to keep the country quiet;
- (c) that developments in Libya and the Sudan had increased the pressure and quickened the tempo of demands for further constitutional advance.

Such advice, coming from so resolute, experienced and sagacious a Governor would give pause but this is not all.

12. Last year my predecessor had an interview in London with the Governor and Dr. Nkrumah when the project was discussed of calling him "Prime Minister" and of the Governor appointing Representative Ministers in consultation with him. Legally and literally what the Secretary of State said could be construed as not being a pledge. Morally and practically I consider he gave a pledge and it was so read by both the Governor and Dr. Nkrumah. To go back on it now would not only be to repudiate a British bargain but would inevitably lead to the inference that Her Majesty's new Government were determined to alter their policy with regard to the Gold Coast.

13. If, on the other hand, we make concessions, there is at least a chance of a policy of ordered progress by successive stages being successfully pursued.

14. I should add that if the leading Gold Coast Minister has the title of "Prime Minister" it does not mean that he has any right, any more than the Prime Minister of Malta, to be invited to meetings of the Commonwealth Prime Ministers.

15. I therefore with great reluctance, but without any doubt or hesitation, have to recommend to my colleagues that the concessions in paragraph 7 should be granted and the consequences accepted. If politics is the art of what is practicable this course is justified.

16. I conclude by saying that no guarantee could be given that these steps will lead us to where we want. All that I can guarantee is that not to take them will certainly lead us to where we do not want.

O. L.

Colonial Office, S. W. 1.,

9TH FEBRUARY, 1952.

CONFIDENTIALC. (52) 29COPY NO. 6211TH FEBRUARY, 1952CABINETJOHN DEERE PROJECT AT EAST KILBRIDEMemorandum by the Secretary of State for Scotland

The Economic Policy Committee have decided after the fullest consideration (E.A. (52) 8, 10 and 18 and the minutes of the second and fourth meetings) to postpone indefinitely - apart possibly from the work of site preparation - the erection of a factory at East Kilbride, near Glasgow, for the John Deere Plow Company, Moline, Illinois. I concurred with great reluctance in this decision which is based on the shortage of steel and the restriction of investment. It will, however, be strongly challenged in Scotland and the resulting situation cannot fail to be most damaging to the Government. Since it was likely that the Prime Minister would be personally approached, I thought it advisable to let him know the position. It is at his suggestion that I am circulating this paper.

2. The John Deere Plow Company are a large mid-western American concern. They were induced to establish a factory in this country in the face of most attractive offers made to them by France, Holland, Italy and other European countries and an undertaking was given that the Government would build for them a factory of 425,000 square feet in the new town of East Kilbride.

3. In the spring of last year the case for proceeding with the factory in face of defence obligations was questioned. The late Government decided to confirm the undertaking to build it, subject only to the overriding priority of the defence programme. On the faith of this undertaking the firm have incurred considerable expense and entered into large commitments.

4. There will be a powerful reaction in Scotland to the announcement of a decision to postpone the construction of the factory indefinitely. The Scottish Council, which is a responsible and representative body with a high reputation as the mouthpiece of all shades of moderate opinion, will undoubtedly criticise the decision in the strongest terms. Its chairman, Lord Bilsland, has indicated his intention of resigning his chairmanship of the Scottish Industrial Estates Company, who would have built the factory, on the ground that he cannot be a party to a breach of faith. The Opposition will, of course, claim that they rescued the project from a similar fate last year and would not, had they remained in power, have allowed the present decision to be taken. The nationalists will argue that the John Deere case illustrates the danger to Scotland of London control. It will be pointed out - I believe with justice - that comparatively little factory building for defence purposes is going on in Scotland, that our unemployment, at 3.2 per cent, is higher than in any other region and that the postponement of a dollar-earning American project requiring over a period of two years some 2,000 tons of steel is not justified by the present steel shortage, eased as it has been by the promise of American help.



5. I understand that the firm have been informed of the decision to postpone the building of the factory and that they are likely to abandon the project altogether unless they can be assured of a definite starting date. My hope is that the situation might be retrieved if they were to be given a firm starting date in 1953.

J.S.

Scottish Office, S.W.1.,

11TH FEBRUARY, 1952.

Scottish Office, S.W.1.,

11TH FEBRUARY, 1952.

*Printed for the Cabinet. February 1952*

CONFIDENTIAL

Copy No. 64

C. (52) 30

12th February, 1952

CABINET

**STEEL PRICES IN THE UNITED KINGDOM**

**NOTE BY THE PRIME MINISTER**

I circulate, for consideration by the Cabinet, a minute from the Minister of Supply recommending an immediate increase in steel prices in the United Kingdom.

This question was previously discussed by the Economic Policy Committee on 23rd January, 1952 (E.A. (52) 6 and E.A. (52) 2nd Meeting, Minute 3).

W. S. C.

10, *Downing Street, S.W. 1*,  
12th February, 1952.

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**PRIME MINISTER FROM MINISTER OF SUPPLY**

1. You asked me over the telephone for a note on the result of my further talks with Mr. Hardie about steel prices.

2. In considering the proposed price increases you have rightly been concerned with the possibility that our critics might say—

(a) that these increases were being made against the advice of the Corporation which considered that the additional costs could be absorbed by the industry's profits, and

(b) that the rise in prices was due to the extra quantities of expensive steel which you had obtained from America.

3. On 6th February I asked all the members of the Corporation to meet me in order to clarify their position. I asked them to agree a factual statement as to what were the increased costs and the increased profits. The Corporation



went away and had a meeting by themselves. Later in the day they came back and informed me that they were agreed—

- (a) that in 1952 the <sup>additional</sup> costs of the industry (including the cost of equalising the price of imported steel and raw materials) would amount to £56 million without making any allowance for the additional half million tons of steel obtained by you in America or £70 million if the cost of the additional half million tons were included; and
- (b) that the profits of the industry (including all extraneous engineering activities and premia on exported steel) for the year ending 30th September, 1951, had risen by about £11 million as compared with 1950.

4. Having obtained their confirmation of these facts, I asked them to agree that in the circumstances it would be reasonable to increase prices to an extent sufficient to yield an additional £56 million, leaving the balance of £14 million required to cover the cost of the extra half million tons of steel obtained by you in America to be met out of the earnings of the industry. I then left them to have a meeting of the Corporation on their own to consider this proposition. When I returned to the meeting about an hour later, Mr. Hardie informed me that the Corporation were agreed that (assuming the Government were not prepared to meet the cost of imported finished steel by means of an Exchequer subsidy), steel prices should be raised by £56 million. Mr. Hardie added that the decision of the Corporation had not been unanimous, and made it quite clear that he himself had been out-voted by his colleagues.

5. In addition they agreed the text of a draft statement, which I submitted to them, to be issued with the new price order, if this should be approved by the Cabinet (Appendix A).

6. Bearing in mind that at our meeting a month earlier Mr. Hardie, after agreeing price increases subsequently repudiated the Minutes, I insisted on this occasion that the Corporation should not leave until the Minutes had been typed and signed by them.

7. You will see from the above that the new prices which were drawn up before your Washington talks on the earlier assumption that we would receive only some 500,000 tons of steel from America:—

- (a) are now formally agreed by the Corporation, and
- (b) have not been increased to cover the additional half million tons which you obtained in America.

8. In these circumstances I hope the Cabinet will authorise me to go ahead and issue the new price order as soon as possible.

9. I am sending a copy of this Minute to the Colonial Secretary, the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster and the Paymaster-General.

*Ministry of Supply,*

*9th February, 1952.*

## APPENDIX A

## DRAFT PRESS NOTICE

The Minister of Supply has made Orders, to come into effect from , increasing the controlled maximum prices of iron and steel.

The increases are due partly to the rising costs and greater volume of imported steel and raw materials and partly to higher costs at home (wages, transport, coal, coke, fuel oil, scrap, &c.).

The Government have decided to maintain the policy adopted by the previous Government of averaging the prices of imported and home-produced steel. While the Iron and Steel Corporation adhere to the view which they expressed to the late Government that the extra cost of imported finished steel should be borne by an Exchequer subsidy and should not be included in home prices, they agree that the additional costs of other imported materials should, like increased home costs, properly be charged against the prices of steel produced in this country.

The full increase in costs is not, however, reflected in the new prices now announced, the Minister having decided, in agreement with the Iron and Steel Corporation and the Iron and Steel Federation, that a proportion of the extra costs should be met out of the profits of the Industry. If allowance were made for the full rise in costs, average prices would be increased by about £5 a ton, whereas the new prices provide for an increase of about £4 a ton, thereby leaving about £1 a ton to be borne by the steel industry.

Typical examples of the total price changes are:—

	<i>Present basis price</i>			<i>Revised basis price</i>		
	£	s.	d.	£	s.	d.
Basic pig-iron ... ..	11	15	6	12	10	0
Soft basic billets ... ..	21	11	6	25	4	6
Sheet and tinplate bars... ..	21	16	0	25	3	6
Heavy sections ... ..	23	15	6	27	17	0
Plates (N.E. coast, &c.)... ..	25	6	6	29	14	0
Light sections ... ..	27	1	0	31	5	6
Bright steel bars... ..	37	6	0	42	7	3



*Printed for the Cabinet. February 1952*

SECRET

Copy No.

76

C. (52) 31

8th February, 1952

## CABINET

### GERMAN CONTRACTUAL SETTLEMENT

#### MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

In my memorandum C. (51) 24 of 20th November, I drew my colleagues' attention to a draft Agreement on General Relations negotiated by the United Kingdom, United States and French High Commissioners in Germany with the German Federal Chancellor. This draft establishes in broad outline the changes in present occupation arrangements, which would accompany a German contribution to defence. It was, with very minor amendments, provisionally approved when M. Schuman, Mr. Acheson and I met Dr. Adenauer in Paris on 22nd November. The final text is at Annex I.

2. Since that date, the Allied High Commission has continued negotiations with the Federal Government on the Conventions and other detailed undertakings that are needed to complete the settlement. It had been hoped that this work might be completed before the Lisbon meeting of the North Atlantic Council, but this has not proved possible. I attach as Annex II a statement showing the proposed form of the settlement and the position reached on each issue. Much has been successfully accomplished in these complex negotiations. But the conventions are not yet complete, nor have they been brought to the point at which only a small number of vital points are outstanding, on which Ministers might hope to reach final agreement before Lisbon. Work has been particularly retarded on the difficult subjects of a German financial and economic contribution to defence and of war criminals. Nor has agreement yet been reached on the question of security controls over German rearmament.

3. Progress on these and other questions has in the last few days been retarded by the repercussions of the French Government's decision to appoint an Ambassador in the Saar and of the German Government's decision to raise the question of the association of the European Defence Community, of which Germany is to be a member, with the North Atlantic Treaty Organisation, of which she is not a member. The flurry caused by these events will, I hope, subside before the Lisbon meeting. But it has increased the already serious difficulties facing both the French and the German Governments in securing the approval of their Parliaments for the German defence contribution and therefore for the German contractual settlement, since both must enter into force together. French public opinion is disturbed over the possible revival of nationalist tendencies in Germany. German public opinion is not unanimous that German rearmament and conscription should be accepted. It is sensitive about the effects of such a decision on the prospects of German reunification and suspects that Germany is being asked to contribute to the defence of the West without equal status. The whole programme has therefore reached a critical phase. The situation will, I hope, become clearer after the debates on foreign affairs in the Bundestag and the French Chamber within the next week.

4. In spite of these uncertainties, I am satisfied that our present policy is on the right lines, and is indeed the only way (a) to bring Germany safely within the

Western community, and (b) to provide the West with adequate defences against the Soviet threat. I am arranging to meet M. Schuman and Mr. Acheson in London next week to review the situation and see how far we can remove at least some of the main obstacles before the meeting of the North Atlantic Council in Lisbon. If we find that it will help us to reach the necessary decisions, we shall probably invite Dr. Adenauer to join us during our tripartite conference.

5 The eventual entry into force of the contractual arrangements will involve important changes in our representation in Germany. In particular, the United Kingdom Element of the Allied High Commission will be transformed into a British Embassy. It will then no longer be possible to recover Foreign Office Deutschmark expenditure out of Occupation Costs. The future Embassy staff will have to be far smaller than even the present reduced Control Commission. Reductions will be made by transferring responsibilities to the Germans under the contractual arrangements, or to our armed forces or by giving up certain work altogether. This will entail certain risks. We shall, in particular, not have staff in Germany to organise an airlift to Berlin, should this again become necessary; nor directly to exercise the Emergency Powers which we shall be reserving under the Agreement on General Relations. In our present economic situation, we have to accept these risks. I hope they can be mitigated by increased reliance on the German authorities and on our own armed forces. I feel that my colleagues should be aware of the position.

A. E.

*Foreign Office, S.W. 1,  
8th February, 1952.*

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## ANNEX I

22nd November, 1951

### DRAFT AGREEMENT ON GENERAL RELATIONS

#### PREAMBLE

Whereas a peaceful and prosperous European community of nations firmly bound to the other free nations of the world through dedication to the principles of the Charter of the United Nations can be attained only through united support and defence of the common freedom and the common heritage;

Whereas it is the common aim of the Signatory States to integrate the Federal Republic on a basis of equality within the European Community itself included in a developing Atlantic Community;

Whereas the achievement of a fully free and unified Germany through peaceful means and of a freely negotiated peace settlement, though prevented for the present by measures beyond their control, remains a fundamental and common goal of the Signatory States;

Whereas the retention of the Occupation Statute with its powers of intervention in the domestic affairs of the Federal Republic is inconsistent with the purpose of such integration;

Whereas the Three Powers are therefore determined to retain only such special rights, the retention of which, in the common interest of the Signatory States, is necessary in regard to the special international situation of Germany;

Whereas the Federal Republic is determined to maintain a liberal-democratic federal constitution which guarantees the rights of the individual and which is enshrined in its Basic Law, and has developed free and responsible political institutions;

Whereas the Federal Republic shares with the Three Powers a determination to abide by the principles of the Universal Declaration of Human Rights;

Whereas the Three Powers and the Federal Republic recognise the new relationship established by these Conventions and the Treaties for the creation of



an integrated European Community as essential steps to the achievement of their common aim for a unified Germany integrated within the Western European Community;\*

Now therefore, the United States of America, the United Kingdom of Great Britain and Northern Ireland, and France, on the one hand (referred to herein as the Three Powers), and the Federal Republic of Germany, on the other, have entered into the following Convention to set forth the basis for their new relationship:

#### ARTICLE I

1. The Federal Republic shall have full authority over its domestic and external affairs, except as provided in this Convention.

2. The Three Powers will revoke the Occupation Statute and abolish the Allied High Commission and the Offices of the Land Commissioners, upon the entry into force of this Convention and the Conventions listed in Article VIII (called herein "the related Conventions").

3. The Three Powers will thenceforth conduct their relations with the Federal Republic through Ambassadors who will act jointly in matters the Three Powers consider of common concern under this Convention and the related Conventions.

#### ARTICLE II

1. In view of the international situation, the Three Powers retain the rights, heretofore exercised or held by them, relating to (a) the stationing of armed forces in Germany, and the protection of their security, (b) Berlin, and (c) Germany as a whole, including the unification of Germany and a peace settlement.

2. The Federal Republic will refrain from any action prejudicial to these rights and will co-operate with the Three Powers to facilitate their exercise.

#### ARTICLE III

1. The Federal Republic agrees to conduct its policy in accordance with the principles set forth in the Charter of the United Nations and with the aims defined in the Statute of the Council of Europe.

2. The Federal Republic affirms its intention to associate itself fully with the community of free nations through membership in international organisations contributing to the common aims of the free world. The Three Powers will support applications for such membership by the Federal Republic at appropriate times.

3. In their negotiations with States with which the Federal Republic maintains no relations, the Three Powers will consult with the Federal Republic in respect to matters directly involving its political interests.

4. At the request of the Government of the Federal Republic, the Governments of the Three Powers will arrange to represent the interests of the Federal Republic in relations with other States and in certain international organisations or conferences, whenever the Federal Republic is not in a position to do so itself.

#### ARTICLE IV†

1. The mission of the armed forces stationed by the Three Powers in the Federal territory will be the defence of the free world, of which the Federal Republic and Berlin form part.

2. The Three Powers will consult with the Federal Republic in so far as the military situation permits, regarding the stationing of such armed forces in the Federal Republic. The Federal Republic will co-operate fully, in accordance with this Convention and the related Conventions, in facilitating the tasks of such armed forces.

3. Except in case of external attack or imminent threat of such attack, the Three Powers will obtain the consent of the Federal Republic before bringing into

\* There will eventually be inserted here a reference to the European Community for Coal and Steel and the European Defence Community.

† This Article should also, in the Allied view, include a reference to whatever provisions are later agreed upon regarding restrictions on other military activity and regulation of production and research for military purposes.

its territory, as part of their forces, contingents of the armed forces of any nation not now providing such contingents.

4. The Federal Republic will participate in the European Defence Community in order to contribute to the common defence of the free world.

#### ARTICLE V

1. In the exercise of their right to protect the security of the armed forces stationed in the Federal Republic, the Three Powers will conform to the provisions of the following paragraphs of this Article.

2. The Three Powers may proclaim a state of emergency in the whole or any part of the Federal Republic if they find that the security of the forces is endangered—

by an attack on the territory of the Federal Republic or Berlin, or  
by subversion of the liberal-democratic basic order, or  
by a serious disturbance of public order, or  
by a grave threat of any of these events,

and that the Federal Republic and the European Defence Community are unable to deal with the situation.

3. Upon the proclamation of a state of emergency, the Three Powers may take such measures (including the use of armed force) as are necessary to maintain or restore order and to ensure the security of the forces.

4. The proclamation will specify the area to which it applies. The state of emergency will not be maintained any longer than necessary to deal with the emergency.

5. The Three Powers will consult to the fullest extent possible with the Government of the Federal Republic before proclaiming a state of emergency and while the state of emergency continues. They will utilise to the greatest possible extent the assistance of the Federal Government and the competent German authorities.

6. If the Three Powers do not terminate a state of emergency within thirty days after a request by the Federal Government to do so, the Federal Government may submit a request to North Atlantic Council to examine the situation and consider whether the state of emergency should be terminated. If the Council concludes that continuance of the state of emergency is no longer justified, the Three Powers will restore the normal situation as promptly as possible.

7. Independently of a state of emergency, any military commander may, if his forces are imminently menaced, take such immediate action appropriate for their protection (including the use of armed force) as is requisite to remove the danger.

8. In all other respects, the protection of the security of these forces is governed by the provisions of the related Convention.

#### ARTICLE VI

1. The Three Powers will consult with the Federal Republic in regard to the exercise of their rights relating to Berlin. The Federal Republic\* will co-operate with the Three Powers in order to facilitate the discharge of their responsibilities with regard to Berlin.

2. The Federal Republic will continue its aid to the political, cultural, economic, and financial reconstruction of Berlin, and in particular will grant it such aid as set out in the annexed Declaration of the Federal Republic (Annex III of the present Convention).†

\* The reference to "Länder" here and elsewhere has been deleted on condition that the Federal Government submits an official legal opinion to the effect that where, in a treaty or agreement executed by it, the Federal Republic assumes an obligation to take specific action, the Länder are also obligated to take the same action, even though not specifically mentioned in the treaty or agreement.

† At or before the effective date of these Conventions, the Three Powers intend, as far as the situation in Berlin permits, to relax the controls in Berlin. If this has not already been accomplished, the Three Powers will, by letter to Berlin and the Federal Republic, state their intention to do so promptly.



## ARTICLE VII

1. The Three Powers and the Federal Republic are agreed that an essential aim of their common policy is a peace settlement for the whole of Germany, freely negotiated between Germany and her former enemies, which should lay the foundation for a lasting peace. They further agree that the final determination of the boundaries of Germany must await such a settlement.

2. Pending the peace settlement, the Three Powers and the Federal Republic will co-operate to achieve, by peaceful means, their common aim of a unified Germany enjoying a liberal-democratic constitution, like that of the Federal Republic, and integrated within the Western European Community.

3. The Three Powers and the Federal Republic agree that a unified Germany shall be bound by the obligations of the Federal Republic under this Convention and the related Conventions and the Treaties for the formation of an integrated European Community, as adjusted according to their terms or by agreement of the parties thereto, and shall likewise be entitled to the rights of the Federal Republic under these Conventions and Treaties.

4. The Three Powers will consult with the Federal Republic on all other matters involving the exercise of their rights relating to Germany as a whole.

## ARTICLE VIII

The Three Powers and the Federal Republic have entered into the following related Conventions which will become effective upon the coming into force of this Convention:

(List)

## ARTICLE IX

1. There is hereby established an Arbitration Tribunal which shall function in accordance with the provisions of the annexed Charter.

2. The Arbitration Tribunal shall have exclusive jurisdiction over all disputes arising between the Three Powers and the Federal Republic under the provisions of this Convention or any of the related Conventions, which the parties are not able to settle by negotiation, except as otherwise provided by paragraph 3 below or in the related Conventions.\*

3. Any dispute involving the rights of the Three Powers referred to in Article II, or action taken thereunder, or involving the provisions of Article V, paragraphs 1 to 7 inclusive, shall not be subject to the jurisdiction of the Arbitration Tribunal or of any other tribunal or court.

## ARTICLE X

The Three Powers and the Federal Republic will review the terms of this Convention and the related Conventions—

- (1) Upon the request of any one of them, in the event of the unification of Germany or the creation of a European federation; or
- (2) Upon the occurrence of any other event which all the signatory States recognise to be of a similarly fundamental character.

Thereupon, they will, by mutual agreement, modify this Convention and the related Conventions to the extent made necessary or advisable by the fundamental change in the situation.

## ARTICLE XI

1. This Convention and the related Conventions shall be ratified by the signatory States in accordance with their respective constitutional procedures. The instruments of ratification shall be deposited by the signatory States with the Government of the

2. This Convention shall come into force immediately upon:

- (a) the deposit by all the signatory States of ratifications of this Convention and of all the Conventions listed in Article VIII; and
- (b) the coming into force of the treaty relating to German participation in Western Defence (European Defence Community).

\* The form of this exception may be subject to revision upon completion of the negotiations of the individual Conventions.

3. This Convention and the related Conventions shall be deposited in the Archives of the Government of the <sup>con</sup> which will furnish each signatory State with certified copies thereof and notify each such State of the date of the coming into force of the Convention and the related Conventions.

IN FAITH WHEREOF the undersigned representatives duly authorised there-to have signed this Convention.

Done at this day of , 1952, in the English, French and German languages, all being equally authentic.

## ANNEX II

### CONTRACTUAL SETTLEMENT WITH THE GERMAN FEDERAL REPUBLIC

The settlement will consist of the Agreement on General Relations (see C (51) 24 of 20th November, 1951) and of subsidiary Conventions, whose titles and salient features are outlined below:—

#### 1. *Convention on Rights and Obligations of the Allied Forces*

This is in fact a catalogue of Allied rights, rather than obligations. We are seeking to obtain rights going far beyond those accorded to N.A.T.O. forces in N.A.T.O. countries, basing ourselves on the large contingents we have in Germany. The Convention enumerates collective rights of the Allied Forces (carefully avoiding financial issues) and details the legal status of individual members of those forces and their dependants. From the United Kingdom standpoint, the three most difficult issues here have been:—

##### (a) *Criminal Jurisdiction over Dependants*

Under the United States and French Service discipline legislation, but not under our own Army Act, dependants of members of the armed forces in Germany can be tried by Military Courts on criminal charges. In the absence of any amendment to the Army Act, we shall be obliged to allow German Courts jurisdiction over our dependants. The practical effects of this will be limited, since very few cases in fact arise.

##### (b) *Security Offences against Allied Forces*

Though this subject has given much trouble, there is likely to be a satisfactory compromise under which Allied Forces will have defined rights of arrest and interrogation of security suspects; their trial and punishment will be arranged also in a manner satisfactory both to Allies and Germans.

##### (c) *German Service Organisation*

The Germans insist on a "civilianisation" of this body of some 50,000 German auxiliaries which the British Army of the Rhine has used on a variety of non-combatant duties, as a means of economising British man-power. With the entry into force of the European Defence Community, a change in present arrangements in this field is unavoidable. But we are negotiating to ensure that transition takes place over a period and is effected with the least possible detriment to the fighting efficiency of B.A.O.R. The loss of this man-power would mean that we should have either to reinforce B.A.O.R. to fill gaps created or to reduce the number of fighting units in B.A.O.R.

#### 2. *Convention on German Economic and Defence Participation*

After prolonged delays caused in the first place by Allied differences and thereafter by German efforts to avoid any direct contractual obligations to the three Powers in this field, the negotiators are now down to brass tacks. But there is so much detailed and contentious work still to be done that no complete result can be expected until after the Lisbon meeting. The main points to be covered are:—

- (a) Agreement on the size of an equitable German financial and economic contribution to Western defence—now being assessed by the three N.A.T.O. "Wise Men" sitting in an informal capacity, but by the same criteria as they have applied in appraising efforts of N.A.T.O. countries.



- (b) Apportionment of German defence contribution between the continued support of Allied forces in Germany and the European Defence Community. The Allies wish to secure payment of all their essential expenditures on troops in Germany during the next financial year and the best possible undertaking to contribute to their maintenance thereafter.

This is the most important single issue for the United Kingdom in these negotiations, since as much as £150 million a year in foreign currency is at stake. Satisfactory results here are more essential to the United Kingdom than to the United States (whose resources are greater) or to France (whose troops, as part of the European Defence Community, will soon be subject to alternative financial arrangements). Inter-allied unity has so far been maintained on the satisfactory basis of the decision I reached with M. Schuman and Mr. Acheson in Rome last November that the maintenance of Allied forces in Germany should in the coming year be the first charge on the German defence contribution. But the Germans will naturally try to reduce their total contribution and to make the raising of their own contribution to the E.D.C. their first care.

### 3. *Convention on Acts and Certain Interests of the Three Powers and the Transfer of Certain Responsibilities to the Federal Republic*

This Convention will consist of a number of Parts, each dealing with a separate subject. The matters treated are:—

#### *Part I.—General Provisions*

There are certain outstanding problems here connected with recognition of validity of Allied acts and judgments (including enforcement of the latter), guarantees of non-discrimination for persons who have supported the Allied cause: immunity of Allied officials from suit in respect of past official acts; winding up of present Occupation Courts. These should, however, be capable of solution.

#### *Part II.—Deconcentration and Decartelisation of Industry*

Substantial agreement has been reached with the Federal Government and the outstanding points, which mainly concern the duration of Allied agencies for coal, steel and chemical reorganisation, should be settled shortly.

#### *Part III.—Internal Restitution*

This will provide for continued operation of Allied laws under which Nazi persecutees can claim return of identifiable property of which they were despoiled. Difficulty has arisen over the assumption by the Federal Government of liability for awards against the Reich. No figures are available to show how much the Federal Government might have to pay. Closely connected with this question, there is a dispute regarding the constitution of the Supreme Restitution Court, this is likely to be raised at the tripartite Ministerial meeting. The difficulty here arises from American insistence that there should be a preponderance of Allied judges.

#### *Part IV.—Compensation for Victims of Nazi Persecution*

A corollary of Part III, again raising the problem of liability for claims against the Reich. We hope to be able to surmount the outstanding difficulty over compensation for non-German victims of Nazi persecution, in particular Displaced Persons of Polish or Baltic origin.

#### *Part V.—External Restitution*

Return of property removed under duress from territories under German occupation. This part is almost agreed.

#### *Part VI.—Reparation*

A number of details are still under consideration, notably:—

- (a) A proposed statement by the Federal Government that, while they do not accept the legal basis of the Allied reparation policy, they do not propose to dispute its effects.
- (b) The extent of compensation for German owners of external assets taken as reparations. The Allies have, in "Safehaven" Agreements with

Spain and Sweden, undertaken to ensure 100 per cent. compensation. The German Federal Government contends that, on political, constitutional and financial grounds, it cannot accord this. This point is likely to be discussed at the Ministerial Meeting.

*Part VII.—Displaced Persons and Refugees*  
Agreed.

*Part VIII.—Claims against Germany*

Required to bridge the gap between relinquishment of reserved powers and conclusion of the Agreement on German external debts now being negotiated in London Conference on German Debts. No major obstacle foreseen.

*Part IX.—German Claims against Foreign Nations or Nationals*

The main subject still under consideration is the post-hostilities waiver of German claims against the Occupying Powers or their nationals. This should not be a major difficulty.

*Part X.—Foreign Interests*

The main question still under consideration is the United Nations exemption from capital taxes to pay for the war (*Lastenausgleich*); this shows no signs of early solution. Substantial British commercial interests, e.g., Shell, Unilever, &c., are involved. So are Benelux and other foreign interests. This is another point likely to be discussed at the meeting of Ministers.

*Part (still un-numbered).—Civil Aviation*

Provides for phased transfer to German hands of present Allied responsibilities: also for guarantees regarding conditions under which operating rights will be afforded to foreign carriers. The Germans will be free to operate civil airlines. The points outstanding on the Convention itself are not likely to prove major obstacles, but the related question whether the Germans may construct civil aircraft is much more difficult—see paragraph 7 below.

*Part (still un-numbered).—Special Facilities to be Granted by the Federal Republic to the Embassies and Consular and Civil Establishments of the United Kingdom, United States and France*

We are seeking transitional arrangements regarding the use by future diplomatic and consular establishments of the three Powers of certain movable and immovable German public property now used by the Allied Occupation authorities and the continued use of certain private property now requisitioned. The Convention will provide certain facilities for construction of new premises, &c. Details are of financial importance to Her Majesty's Government and will be the subject of hard bargaining. This is not, however, likely to become a major obstacle.

*Part (still un-numbered).—War Criminals*

We consider this subject should be covered by a part of this particular Convention. Proposals approved by the Cabinet in C. (51) 33 are still under discussion with French and United States representatives in Germany and no requirement has yet been put to the Germans.

The main points on which our views are not shared by the United States and French Governments are—

- (a) our proposal that the Clemency Board should include a neutral member;
- (b) the function of the Board. We hold that it should take decisions which would be binding on Governments. The Americans and French at present contend that it ought only to recommend to Governments. This would impose a possibly embarrassing responsibility on Allied Governments at a time when custody will have been transferred to the Germans. The issues involved are mainly political and they are likely to be referred to the Meeting of Ministers.

*Charter of the Arbitral Commission for Property Rights and Interests in Germany*

This will be a separate instrument establishing an Arbitral jurisdiction to deal with disputes arising from the implementation of the Foreign Interests and External



Restitution parts of the Convention. Other Governments will be free to accede to this convention, binding themselves to give effect to its decisions in return for the advantages of access to its jurisdiction. Virtually agreed.

#### 4. *Charter of the Arbitration Tribunal*

This lays down details of the Tribunal established under Article IX of the Agreement on General Relations (C. (51) 24). It will be composed of three Allied, three "neutral" and three German members and will have exclusive jurisdiction over all disputes arising between the three Powers and the Federal Republic out of the operation of the settlement, except that the exercise of our "reserved" powers relating to Berlin, German unity and the security of our forces is explicitly excluded from its competence. Agreed, except for one awkward point concerning enforcement of decisions involving enactment of new legislation.

#### 5. *Declaration on Material Aid to Berlin*

Berlin, as one of the Allied "reserved" subjects, is not covered by the Conventions but the Federal Government will, in a separate declaration, affirm their readiness to afford material aid to Berlin in specified ways, and thus to support the position of the three Powers in the Western sectors of the city. No major difficulty foreseen.

#### 6. *Allied Security Guarantee*

In order to meet the situation arising out of the end of the Allied occupation, the three Powers will reaffirm the New York guarantee to treat an attack on the Federal Republic or on Western Berlin as an attack on themselves. The text, provisionally agreed in Paris last November, is attached as Annex III.

#### 7. *Control of German Armaments Industry*

The three Occupying Powers have a responsibility to the other N.A.T.O. countries arising out of the Brussels meeting a year ago to prevent Germany from manufacturing armaments covered by the so-called "N.A.T.O. safeguards." These are (a) atomic, biological and chemical weapons; (b) long-range missiles; (c) military aircraft; (d) naval vessels other than minor defensive craft; (e) heavy military equipment. If maintenance of all these items is not practicable, they must explain the position to N.A.T.O. On French insistence we have so far tried unsuccessfully to get the Germans to agree to include these prohibitions in the contractual settlement (with heavy military equipment whittled away to propellents and gun barrels of over 105 mm.). The German view is that the position is already covered by the draft European Defence Community Treaty, under which the E.D.C. countries will not be permitted to manufacture war materials, except with the approval of the European Defence Commissioner. The Germans, who are in no sense eager to abandon profitable exports for arms manufacture, insist on equality of treatment in principle. They consider that French requirements will be met effectively without involving discrimination against Germany. They say they will not object to the European Defence Commissioner refusing to permit Germany to produce certain types of strategic armaments (e.g., those under headings (a)-(d) above), on the grounds of her exposed geographical position. They are prepared to give formal assurances to us and to the Americans that they will regard their E.D.C. commitments as also binding towards us. Effective liaison arrangements between E.D.C. and N.A.T.O. could then be worked out to cover our needs.

A solution of the German armaments problem on the lines proposed by Dr. Adenauer within the E.D.C. would not cover civil aircraft, which the three Powers agreed, on United States initiative, at the Foreign Ministers' meeting in Washington in September 1951, should also be prohibited. The Americans now favour an E.D.C. solution on the lines suggested by the Germans but hitherto resisted by the French; they wish, however, to remove civil aircraft from the prohibited list. We have hitherto attached importance to this particular prohibition. Our position has, however, been considerably weakened by the recent United States move and the Chiefs of Staff are being consulted with a view to a separate submission to the Cabinet.

A solution will almost certainly have to be found outside the contractual settlement and the question will have to be discussed at the meeting of Ministers.

## ANNEX III

## SECURITY GUARANTEE

"On the occasion of the entry into force of the conventions establishing a new basis for the relationship between France, the United Kingdom and the United States of America on the one hand, and the Federal Republic of Germany on the other, the Three Powers:--

- (a) Declare that they consider the integrity of the Federal Republic and *Berlin* an essential element of the peace of the free world.
- (b) Reaffirm they will treat any attack against the Federal Republic or *Berlin* from any quarter as an attack upon themselves, and
- (c) Declare that they will maintain armed forces within the territory of the German Federal Republic and *Berlin* for such time as they deem necessary, having regard to their special responsibilities in Germany and the world situation."





Printed for the Cabinet. February 1952

SECRET

Copy No. 80

C. (52) 32

11th February, 1952

CABINET

**NEGOTIATIONS WITH EGYPT ON DEFENCE AND THE SUDAN**

MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

We have now to consider upon what basis we should try to secure the resumption of negotiations with Egypt.

*Recommendations*

2. I recommend that the Cabinet should approve the following procedure:—
  - (a) We should resume negotiations with the present Egyptian Government.
  - (b) These negotiations should be upon a bi-lateral Anglo-Egyptian basis, at any rate to start with; at some later stage, depending upon the course of the negotiations, it will probably be necessary to widen the basis of the discussions and to bring Egypt into a conference of representatives of the Powers sponsoring the setting up of the Middle East Command, namely, in addition to ourselves, the United States, France, Turkey, Australia, South Africa and New Zealand.
  - (c) We should attempt to secure an agreement regulating our defence problems with Egypt, which would fit into the framework of the four-Power proposals of 13th October, 1951, but we should not insist upon the Egyptian Government committing themselves to an acceptance of those proposals in advance of a resumption of the negotiations.
  - (d) We should be prepared, if necessary, to agree that British mobile land forces should be withdrawn from the Canal Zone within one year, but this agreement should be conditional upon a settlement satisfactory to us of the other outstanding points, such as the future of the base, the creation of a joint air defence organisation, and Egyptian participation in the proposed Middle East Command carrying with it the grant of full facilities to allied forces in time of war or imminent menace of war.
  - (e) As regards the Sudan, we should not agree to recognise King Farouk's claim to the title of "King of Egypt and the Sudan," or to any change in the status of the Sudan, before the Sudanese have been consulted; and we should try to persuade the Egyptians themselves to discuss this particular question with the Sudanese, as well as other matters relating to the future of the Sudan, at as early a date as possible. If the Egyptian Government were prepared to send, for instance, the Egyptian Prime Minister to the Sudan for such discussions, I should tell the Egyptians that I myself should be willing to go to the Sudan for this purpose also at the same time.

*Background*

3. Egypt has consistently maintained her demands that British troops shall be evacuated from the Canal Zone and that we shall recognise the unity of the Nile Valley under the Egyptian Crown, by which, of course, she means the unity of Egypt and the Sudan. Our own attitude has been, and still is, that we do not recognise the unilateral abrogation by the late Egyptian Government of the 1936 Treaty and the Condominium Agreements relating to the Sudan, and that we intend to maintain our position in the Canal Zone under that Treaty until such

time as we are able to revise the treaty by agreement with Egypt or to reach a freely negotiated agreement with Egypt which will replace it. If we do not reach agreement with Egypt, we can, and shall, maintain our forces in the Canal Zone and ensure that the Sudan continues to make orderly progress towards self-government and eventually self-determination.

4. At the same time we have to take into account the rising tide of nationalism in the Middle East, the events of the past few months, and the fact that in 1956 our Treaty with Egypt can be revised at the request of either of the parties and that it is unlikely that the neutral authority to whom we should have recourse in the event of disagreement between ourselves and Egypt would decide in favour of a continuance of the Treaty on anything like its present terms. The replacement of the Wafd Government by the present Government, consequent upon the riots in Cairo on 26th January, and the improvement which has already taken place in the situation in the Canal Zone, give us an opportunity to resume negotiations which the former Government had broken off. The present Government is not in every respect satisfactory from our point of view, and it remains to be seen whether it will be able to command sufficient support in the country to maintain its position. But the risk that it might be unable to give effect to an agreement with us is one which we have to take, since, if we cannot reach agreement now, the best to which we can look forward is a recrudescence of anti-British activities in Egypt, the virtual liquidation of our commercial interests there, and renewed attacks on our position in the Canal Zone on such a scale that our base there would once again be rendered inoperative as a war-time base.

5. Our main strategic interest in Egypt is the maintenance of the base which supplies all our forces in the Middle East in peace-time and which would serve the Allied armies defending the Middle East in time of war. Without this base, the defence of the Middle East might become impossible, and we are advised that Egypt is the only suitable location for such a base owing to such considerations as geography, the existence of adequate communications, airfields and other installations, and the presence of industrial potential and a labour force.

6. In peace-time, the presence of British forces and the British base in the Canal Zone is a stabilising factor in Middle East politics and contributes more than anything else to British influence and prestige throughout the Middle East, the Eastern Mediterranean and North Africa. It is also a guarantee of the freedom of shipping under the flags of all nations to pass through the Suez Canal, in accordance with the terms of the Suez Canal Convention of 1888.

7. The four-Power proposals, which were made to the Egyptian Government on 13th October, 1951, jointly by ourselves, the United States, France and Turkey, were designed to take account so far as possible of these interests as well as of the new situation in the Middle East, but they purposely left many important matters affecting Anglo-Egyptian relations open for negotiation with the Egyptian Government. Since we are fully committed to these proposals, any arrangements which we ourselves make with Egypt must be in accordance with the principle underlying them, namely, the substitution of an Allied Middle East Command (in which the four Powers should participate together with Australia, South Africa and New Zealand and Egypt and with which other Middle Eastern States should be associated) for a purely British base and headquarters in the Canal Zone. The four-Power proposals did not, however, provide for the stationing of any *specific* Allied land forces upon Egyptian soil in peace-time. They do provide that "such British forces as are not allocated to the Allied Middle East Command by agreement between the Egyptian Government and the Governments of the other countries also participating as founder members in the Allied Middle East Command organisation" shall be withdrawn from Egypt, on the understanding that the present British base in Egypt would "become an Allied base within the Allied Middle East Command with full Egyptian participation in the running of this base in peace and war" and that "the strength of the Allied forces of the participating nations to be stationed in Egypt in peace-time would be determined between the participating nations, including Egypt." They also provide for the setting up of an air defence organisation, including both Egyptian and Allied forces, with joint responsibility to the Egyptian Government and to the Allied Middle East Command. These proposals were rejected out of hand by the then Egyptian Government, and there is no doubt that it would still be difficult, if not impossible, to secure their acceptance by any Egyptian Government in advance of detailed negotiations. Moreover, it is



now plain that any agreement with Egypt is in fact bound to include a provision for the withdrawal of British land forces as a condition of acceptance of the principle of participation by Egypt in the proposed Middle East Command.

8. I have therefore worked out a line of approach to the Egyptians (see Annex I to this memorandum) which is intended to provide for a resumption of discussions with the Egyptian Government upon the basis of a "neutral" agenda. Within the framework of this Agenda we should be able to develop our thesis regarding the need for a Middle East Command and for Egyptian participation in it; dependent upon Egyptian acceptance in principle of this thesis, we should then work out what arrangements are necessary as between ourselves and the Egyptians for an Allied base and air defence organisation in Egypt, as well as for other matters which need to be covered. The Chiefs of Staff have agreed that the withdrawal of British mobile land forces should be possible within one year, provided that arrangements can be made for their alternative accommodation in other areas and that funds can be provided to give them at least a minimum scale of accommodation and amenities. While all our arrangements must be brought within the corners of the four-Power proposals, I consider negotiations should first be opened upon an Anglo-Egyptian basis, and only broadened subsequently when questions affecting the organisation of the proposed new Middle East Command come up. At this stage we would hope, on the assumption that our own negotiations with Egypt are on the way to being successful, that the latter might be willing to participate in a conference of all the Powers sponsoring the establishment of the Middle East Command.

9. A complicating factor in our negotiations with Egypt is the future of the Sudan. At the same time as it purported to abrogate the 1936 Treaty last October, the then Egyptian Government introduced legislation altering the title of King Farouk to "King of Egypt and the Sudan" and laying down the outlines of a Constitution for the Sudan. This was done without any consultation with the Sudanese, and aroused intense resentment in the Sudan. It would, however, be very difficult, if not impossible, for any Egyptian Government to revoke this legislation, and the question of King Farouk's title is a matter which concerns his personal prestige. As a consequence it raises difficulties for us, since the King is the principal stabilising element in the country and the person upon whom we must rely to influence his Government towards a favourable defence settlement.

10. We have been repeatedly advised, in the most categorical terms, by Her Majesty's Ambassador in Cairo that we cannot hope for an agreement on defence without a solution of the problem of the King's title and that there is indeed little hope of our even being able to start defence talks without giving some assurance to the Egyptian Prime Minister that we are actively seeking such a solution. This is also the firm opinion of the United States and French Ambassadors in Cairo. This view has been consistently held by our Embassy in Cairo and repeated to us at intervals throughout the whole period of our efforts to reach agreement with the Egyptians. On the other hand it is the considered and reiterated opinion of the Governor-General of the Sudan that recognition by us of King Farouk's claim would provoke widespread disturbances in the Sudan which the Government might not be able to control. It is in any event out of the question that we should go back upon our pledges to the Sudanese that there shall be no change in their status without prior consultation and that they shall eventually be free to determine their own future.

11. Our first difficulty is to arrange for a proper consultation with the Sudanese, in the absence of any fully representative institutions in the Sudan, and this consultation must take place in the near future if it is to help us towards a solution of the defence problem. Moreover, it must be such that the Egyptians will not be able to dismiss it as a mere put-up job. I have therefore come to the conclusion that it might be worth trying to transfer to the Egyptians themselves some of the onus of consulting the Sudanese and attempting to persuade them to agree to some form of recognition of King Farouk's claim to the title of "King of the Sudan." At Annex II is the proposal which I should like to put to the Egyptian Prime Minister. This might possibly suffice to enable us to renew negotiations on defence, and if its reception by the Egyptian Government were favourable, it might be suggested to them that they should send the Prime Minister himself to the Sudan to discuss matters with the Sudanese. In certain circumstances I myself might be prepared to go there at the same time. Indeed, if the Egyptian Prime

Minister were inclined to take a realistic view of the matter, it might also be desirable to suggest to him that consultations with the Sudanese should be broadened to include the whole question of the future relations between Egypt and the Sudan. These ideas are admittedly somewhat tentative at present, but I should be grateful if my colleagues would approve them in principle, subject to any comments which I may receive from Her Majesty's Embassy at Cairo or the Governor-General of the Sudan.

A. E.

*Foreign Office, S.W. 1,  
11th February, 1952.*

## ANNEX I.

### NEGOTIATIONS ON DEFENCE

Below is an outline, in stages, of our approach to the Egyptian Government. Obviously the stages may not be rigidly adhered to in the event, but it has seemed convenient to set them out in this way for the sake of clarity. (Her Majesty's Ambassador in Cairo has already been instructed to discuss Stages I, II, and III with the Egyptian Prime Minister.) The draft "Statement of Intent" is not a document which we would show to the Egyptians at any stage, but it is meant merely as a guide for ourselves, in order to indicate the kind of result which we should hope might emerge from the negotiations.

These negotiations might therefore follow a course somewhat on the following lines:—

#### *Stage I*

Agreement with the Egyptian Government to resume discussions on defence.

#### *Stage II*

The formulation of an agreed Agenda for these discussions along the following lines:—

1. The conception of and need for an Allied Middle East Command: Egypt's participation in such a Command.
2. The need for an Allied military base to support such a Command, and its possible organisation, *e.g.*, control of base, technical and administrative personnel needed for maintenance of national equipment, arrangements for maintenance of base installations, airfields, &c.
3. Defence of the Allied Base, including allocation of responsibilities—
  - (a) Land defence.
  - (b) Air defence.
  - (c) Local protection.
4. Future of British land and air forces in Egypt.
5. Training and equipment of Egyptian armed forces to undertake new responsibilities.
6. Facilities for allied personnel and military equipment remaining in Egypt, including personal and fiscal privileges.
7. Facilities for the use of airfields by allied military aircraft in transit.
8. Facilities for movement and stationing of forces and war material in Egypt in the event of war.
9. Supersession of the 1936 Treaty.

(NOTE.—This Agenda has been drafted so far as possible on "neutral" lines in order to try to avoid pre-judging any of the issues which we have to settle with the Egyptians.)



*Stage III*

Issue of a joint Communiqué recording the decision to resume discussions. This might be on the following lines:—

Her Majesty's Government and the Egyptian Government have agreed to resume discussions with a view to reaching a defence settlement. Her Majesty's Government have agreed, on the assurance of the Egyptian Government that they will take such steps as are appropriate and open to them to ensure the return of normal conditions in the Canal Zone area, to start a withdrawal of forces from that area as soon as conditions make this practicable. It is the sincere desire of Her Majesty's Government to reach an agreement with the Egyptian Government for arrangements for the adequate defence of the Canal Zone. Both Governments recognise and agree that the successful defence of the Middle East depends on the collaboration of all the States concerned, in time of peace as in time of war. At the same time, they recognise that such collaboration can only be successful if it is freely given in a spirit of partnership, and is compatible with the national dignity of all parties.

*Stage IV*

The actual resumption of negotiations, which should so far as possible be kept secret, on the basis of the agreed Agenda. We should endeavour as a result of these discussions to draw up an Agreed Minute containing a common Statement of Intent on the following lines:—

1. Her Majesty's Government agree to the withdrawal from Egypt within twelve months of all mobile fighting units of the British land forces in Egypt.  
(NOTE.—We should probably not offer withdrawal within this period at the outset of negotiations, but we should almost certainly have to accept such a period if we are to reach agreement.)
2. Her Majesty's Government will turn over to the Egyptian Government the present military base installations on the Suez Canal. The Egyptian Government agree that these shall forthwith be made available free of cost to the Allied Middle East Command;
3. The Egyptian armed forces shall assume the task of providing for the security from land and air attack, and for the local safeguarding, of the Allied military base and the Suez Canal. The Egyptian Government for their part agree—
  - (a) that the overall direction of the air defences should be vested in the Allied Middle East Command, operating through an Allied Air Defence Organisation.
  - (b) to permit the stationing in Egypt of such Allied air forces and air defence personnel as may be considered by the Supreme Allied Commander Middle East in agreement with the Egyptian military authorities to be necessary to supplement the Egyptian air forces available.
4. There will thus remain in Egypt of the British land forces only such technical and administrative personnel as are required to maintain at a state of operational readiness British military equipment held in the Allied military base. These personnel will so far as possible be replaced by British civilian technicians and wherever practicable by Egyptian personnel trained in the handling of British stores and equipment. Of the British air and air-defence forces only such will remain as are allocated by the Supreme Allied Commander Middle East to the Allied Air Defence Organisation mentioned above. These too will be replaced by Egyptian units and personnel progressively as sufficient of the latter can be trained and equipped to the requisite standard.
5. Her Majesty's Government undertake, in common with such other participating members of the Middle East Command as are in a position to do so, to facilitate the training and equipment of the Egyptian armed forces to assume the responsibilities referred to above.
6. As soon as satisfactory arrangements have been concluded between the Allied Command and Egyptian military authorities regarding the organisation of the base and its defences, Her Majesty's Government

will agree to regard the 1936 Treaty as superseded and will be glad to enter into a new Treaty of Alliance with Egypt in keeping with the spirit which has animated the nations of the free world to join together in voluntary defensive co-operation.

7. In consideration of the above and in recognition of the over-riding need to consolidate the defences of the Middle East, the Egyptian Government agree to participate in the Allied Middle East Command on a footing of equality with the founder members.
8. The Egyptian Government agree that in the event of war or imminent menace of war Egypt will grant the forces of the Allied Middle East Command all the necessary facilities and assistance. Meanwhile she agrees to grant the customary personal and fiscal facilities to such Allied military personnel and war material as require to be located in Egypt in time of peace.
- [9. The Egyptian Government agree to the location of the Allied Supreme Commander's Headquarters on Egyptian territory.]
10. The two Governments agree to pursue as a matter of urgency and in consultation with the other Powers concerned further discussions on military and political levels to give effect to the foregoing.

#### *Stage V*

Publication of the Agreed Minute and simultaneous announcement of Egyptian adherence to the Allied Middle East Command.

#### *Stage VI*

Further discussions between Egypt and the other Powers sponsoring the setting up of the Middle East Command on the structure of this Command and all the arrangements incidental to its establishment. These discussions might also include the negotiation by the Supreme Allied Commander, Middle East, of the necessary arrangements with the Egyptian Government in connexion with the maintenance of the Allied base in Egypt, detailed questions of organisation and immunities for Allied forces in Egypt, and other relevant matters.

## ANNEX II

### THE SUDAN

We might tell the Egyptian Prime Minister that, in view of our pledges to the Sudanese, which we should enumerate, we cannot ourselves agree to recognise King Farouk's claim without prior consultation with the Sudanese. At present there is no purely Sudanese institution or body sufficiently representative of Sudanese opinion to enable such consultation to take place. We therefore consider—

- (a) that it must be for the newly-elected all-Sudanese Parliament, which we hope will meet after elections to be held this summer, to decide in the first instance upon the question of King Farouk's nominal sovereignty;
- (b) that in order to leave no doubt of the fairness of the elections for this Parliament, and to encourage all political parties to participate in them, an international Commission upon which Egypt, the United Kingdom, and the Sudanese shall be represented shall be set up in the Sudan to observe the conduct of the elections;
- (c) that meanwhile the Egyptian Government should send a representative of high standing, in whom they have full confidence, to the Sudan in order to discuss these proposals with leading Sudanese and possibly the whole question of the future relations between Egypt and the Sudan.

2. It seems to me that a proposal on these lines ought to meet the proper interests of the Egyptians, without prejudicing the rights of the Sudanese, or conflicting with our own pledges in respect of the Sudan. It is therefore the course which I advocate.

3. Nevertheless, if the advice which I have received from Cairo is correct, it seems improbable that it will satisfy the Egyptian Government, and we may therefore find them unwilling to reach any settlement with us on the defence issues. I have therefore thought it worth while to put up for consideration by my colleagues



an alternative proposal, which goes a little further towards satisfying the Egyptian Government but which might give to the Sudanese the impression that we ourselves were trying to influence them towards acceptance of the Egyptian thesis.

4. Under this alternative scheme we would suggest to the Egyptian Government that their representative should consult responsible Sudanese, both inside and outside the Legislative Assembly, in order to see whether agreement could be reached on the following points: —

- (a) Whether the Sudan could agree that, pending Sudanese self-determination, there should be general recognition of the symbolic link between Egypt and the Sudan provided by the Egyptian Crown.
- (b) There should be no interference by either Egypt or the United Kingdom with the steps which are being or are about to be taken, with the authorisation of the Governor-General, towards Sudanese self-government.
- (c) That after the achievement of full self-government, which both the United Kingdom and Egypt hope will be by the end of 1952, the Sudanese shall be free to choose their own future by whatever means they think desirable, and that this choice shall include full independence.
- (d) With a view to the orderly attainment of self-government and thereafter of self-determination for the Sudan, an international Commission, on which both Egypt and the United Kingdom will be represented, shall be established as soon as possible to advise the Governor-General upon the various constitutional steps to be taken.

It would be made clear to the Sudanese that all these points, (a) to (d) above, are interdependent, and that if the Sudanese were prepared to accept these proposals, they would be embodied in an agreement subscribed by Egypt and the United Kingdom and registered with the United Nations.

5. The advantage of this alternative scheme from the Egyptian point of view is that it does at least enable them in theory to secure an expression of Sudanese opinion on King Farouk's claim without waiting for the establishment of an all-Sudanese Parliament, which will undoubtedly take several months at least. Nevertheless, there is no certainty that it would satisfy Egyptian aspirations, and it might provoke disturbances in the Sudan. I therefore favour postponing any decision by the Sudanese until after the election of the new Parliament, as suggested in the former proposal.

*Printed for the Cabinet. February 1952*

SECRET

Copy No. 61

C. (52) 33

11th February, 1952

## CABINET

### THE FINANCIAL SITUATION OF THE STERLING AREA

#### MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

I circulate for the information of my colleagues a telegram which I have sent to Commonwealth Finance Ministers in order to keep them informed of current developments. I propose to send them a telegram each month and I shall circulate these to the Cabinet. I draw special attention to paragraphs 11 and 12.

R. A. B.

*Treasury Chamber, S.W. 1,  
11th February, 1952.*

#### Message from the Chancellor of the Exchequer to Commonwealth Finance Ministers

1. When we met in London recently we were able to exchange information in a most helpful way about the balance of payments position of the sterling area as a whole and of individual sterling area countries. In the present critical phase I think it would be a good thing if I were to follow this up by sending you a periodical report giving the most up-to-date information about the course of events, in particular about the movement of the gold and dollar deficit and of the central reserves. At the same time I shall also try to say how I view our prospects in the fairly near future. We shall in this way maintain close and continuous contact and I hope that you for your part will be able to let me have your views both on the progress of your own affairs and on the general problem that confronts us all.

2. The present message is therefore the first of these reports and refers mainly to developments during January.

3. In January the gold and dollar deficit amounted to \$297 million. This compares with \$372 million in December (or \$196 million excluding \$176 million service on the North American loans), \$240 million in November and \$320 million in October, which was, of course, a month of exceptional pressure.

4. Receipts from E.R.P. are now negligible. This means that the reserves fell in January by the full extent of the deficit and finished up on 31st January at \$2,038 million compared with \$2,335 million on 31st December, 1951, and \$3,269 million on 31st October.

5. This is a very disappointing result. Although we must be prepared to face a heavy drain for some time the actual loss in January was larger than we had expected. So soon after the event it is impossible to say whether the excess is due to further loss of confidence in sterling, or is merely an accidental matter resulting from fortuitous variations in the timing of earnings or expenditure, or is the result



Our position in E.P.U. in January was also disappointing. The net deficit amounted to £54 million compared with £53 million in December, £64 million in November and £84 million in October. The provisional estimate is that the January deficit will be met by credit from E.P.U. to us amounting to £20.5 million, and a gold payment by us to E.P.U. of £33.5 million or £94 million.\*

of more substantial causes. There is nothing in developments since the beginning of February to give any further guide to the correct explanation, though in due course more details will become available.

6. As you probably know during January we paid £26·8 million or \$75 million to E.P.U. in settlement of our December deficit; the £33·5 million for January to be paid this month therefore brings the two months' total to £60·3 million or \$169 million.

7. With the January E.P.U. deficit we move from the fourth tranche where 60 per cent. has to be settled in gold into the fifth or last tranche where 80 per cent. is settled in gold.

8. In the first few days of February our position in E.P.U. has changed suddenly from a heavy deficit to a small surplus. This is mainly a result of extreme weakness of the French franc which has encouraged a flow of funds to other countries including the United Kingdom. It is too soon to say how far or for how long this movement is likely to continue. As you know measures have been announced by the French Government for deliberalising their imports from other O.E.E.C. countries and this is bound to have some effect on us, though this may not be very great. Moreover in so far as the present movement is semi-speculative in origin it is essentially short-term and reversible and any gain that we make now may well be counterbalanced by losses later on. Nevertheless unless the reversal takes place soon and is sharp we can expect our E.P.U. position in February to be substantially better than in January, and we can certainly look for a much lower gold loss for the month of February than we have recently experienced. On the other hand any significant reversal of the speculative element in our current surplus with France would lead to a rapid increase in the deficit towards the end of the month or in March. As an offset to this our position with the other O.E.E.C. countries, though still heavily in deficit, appears to be improving. We can take some comfort from the fact that the drastic measures of economy which have already been made in imports from O.E.E.C. countries are beginning to show their effect. The position is still very obscure, however, and some time must elapse before we can be sure of the underlying trend of events.

9. Latest information about the course of the United Kingdom's sterling liabilities to other countries shows a continuation of the very sharp decline, particularly in liabilities to other sterling area countries, which has been a marked feature of the past six months. This decline has particularly affected Independent Sterling Area countries, and is, of course, a reflection of a substantial overall balance of payments deficit for the group as a whole. On the other hand sterling liabilities to the Colonies show comparatively little change, which suggests that the Colonies as a whole are still in a position of balance or even in surplus. This situation, of course, will not come as a surprise in view of the analysis and the estimates for 1952 with which we were confronted during the course of our recent meeting in London.

10. The general picture for the sterling area as a whole in January is thus one of continued acute unbalance *vis-à-vis* the non-sterling area. Reserves have fallen even faster than in December, if the special dollar loan transactions are disregarded; the E.P.U. deficit was at approximately the same rate as in December but its cost in gold was greater; the rest of the sterling area, particularly the Independent Sterling Area, is still in heavy deficit and using up external assets at a substantial rate.

11. Nor, in looking ahead over the next month or two, can one expect much relief, apart from the E.P.U. possibilities already mentioned. There have been two unsatisfactory developments recently in our relations with the United States which will reduce considerably the flow of dollars that we hoped to receive during the next few months. We had counted on getting a further \$40 million this quarter under the so-called Katz-Gaitskell agreement following the \$40 million paid to us last quarter. We have now been informed by the United States that only a further \$10 million in all can be made available up to the end of the present fiscal year, *i.e.*, 30th June, 1952. In addition, great technical difficulties have been encountered in arranging for the receipt of the \$300 million which was recently allocated to us under the Mutual Security Act for the fiscal year 1951-52. This makes it extremely unlikely that we shall receive more than a small amount, say of the order of \$25 million, in the present quarter, and possibly not more than \$125 million before the



11. Of the present United States fiscal year—i.e., 30th June, 1952. We have no reason to believe that the remaining portion of the \$300 million will not be carried over into the next fiscal year, but we have never before during the E.R.P. era had such a large carry-over of funds, and the position is clearly hazardous.

12. To sum up, therefore, we can only look for comparatively little real reinforcement to the reserves from United States aid of one kind or another during the next few months. We can certainly expect that our recent tin and rubber deals with the United States will make some contribution. But this is likely to be only of the order of \$20 million during the first quarter of the year.

13. Although it is clearly dangerous in present highly unsettled conditions to venture any guess even about the near future, I think we should do well to reconcile ourselves to a gold and dollar deficit during the present quarter of the year of the order of \$750 million, and a roughly similar loss of reserves. It may be rather less if the E.P.U. position in February, for the special reasons given in paragraph 8, turns out very favourably. But this seems at the present moment to be the most reasonable estimate that can be made.

14. A loss of the order of \$750 million would bring the reserves down from \$2,335 million at the end of December and \$2,038 million at the end of January to under \$1,600 million at the end of March. Even if the rate of drain is slackening off considerably by that time we must contemplate a reduction well below \$1,600 million after the 31st March.

15. I have set out the latest position and the immediate prospects as I see them with candour and without any attempt to conceal their gravity. Nor have I the slightest desire to exaggerate our difficulties. But if we are to meet the situation the utmost frankness on all sides is necessary and the clearest possible appreciation of the magnitude of the task which lies before us. The facts as I have presented them underline the imperative need for immediate action designed to relieve the situation at the earliest possible moment. I am convinced that you realise to the full this need and that your actions and those of your Government will be dictated entirely by it.



*Printed for the Cabinet. February 1952*

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**CONFIDENTIAL**

**Copy No. 61**

**C. (52) 34**

*14th February, 1952*

**CABINET**

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**THE IMPERIAL CROWN**

**NOTE BY THE PRIME MINISTER**

I circulate to my colleagues the following short note on the expression "**Imperial Crown**" which was used in Accession Proclamations until Her Present Majesty's.

W. S. C.

*10, Downing Street, S.W. 1,  
14th February, 1952.*

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During the Middle Ages the Sovereign was referred to in a number of ways, *e.g.*, Our Sovereign Lord the King, The King's Highness, The King's Grace, but never as Majesty, an expression which came into use in the Sixteenth Century.

Henry VIII is said to be the first King who used the expression Imperial in statutes. For example:—

The Act forbidding Appeals to Rome 1532-3 starts:

"Where by divers sundry old authentic histories and chronicles it is manifestly declared and expressed that **this realm of England is an empire** and so hath been accepted in the world . . . ."



Again, the Statute of Wales 1535-6 starts:

"Albeit the dominion principality and county of Wales justly and righteously is and ever hath been incorporated annexed united and subject to and under *the imperial crown of this realm*",

And the Act of 1543-4 ratifying the King's title as King of Ireland declares the King's title to be:

"Henry VIII, by the Grace of God King of England, France and Ireland, defender of the faith and of the Church of England and also of Ireland, in earth the supreme head"

and provides

"the said style—shall be from henceforth . . . united and annexed for ever to *the imperial crown of His Highness realm of England*."

The sixteenth century saw the rapid development of nationalism among the countries of Western Europe and the emphasis on the imperial nature of the Crown was one aspect of that development. Ireland was created a kingdom and in consequence Henry VIII was king of more than one kingdom quite apart from the traditional claim to be King of France. He asserted that his sovereignty was of an imperial nature to show his independence of the Holy Roman Empire and of the Papacy. His ambition to be as good as his fellows was marked by his eagerness to have a special title from the Pope like his fellow monarchs of France and Spain.

The use of the expression "Imperial Crown of this realm" in the Accession Proclamation certainly dates from the reign of Edward VI, the earliest proclamation of which there is a complete text.

CONFIDENTIALC.(52) 35COPY NO. 7012TH FEBRUARY, 1952CABINETLEGISLATIVE PROGRAMMEMemorandum by the Minister of Health

As a result of the adjournment of Parliament due to the death of His Majesty and of the early Budget, there will not be time unless the Session is unduly prolonged to complete a large part of the Legislative Programme approved by the Cabinet at their meeting on 11th December (C.C.(51) 16th Conclusions, Minute 2) and I feel that I should bring the situation to the attention of my colleagues.

2. Excluding the time required for discussion of the Budget and the Second Reading of the Finance Bill, for the business of Supply, and for a defence debate, only twelve days are available for public business before Easter; and the business for two of these has already been announced. At least one of the remaining ten will be required for the Opposition Motion on Foreign Affairs, and one other in completing urgent Bills at present in progress. This leaves only eight days free for other legislation up to Easter. And if the rest of the Session continues as originally planned, with the usual recess at Easter and a longer recess of seventeen clear days at Whitsun, the total time available for legislation from Easter until the Summer Recess is not likely to be more than sixteen days, making in all twenty-four unallocated days from now until the summer.

3. On the best estimate which can at present be made, all the time available will be taken up by the Bills which have already been introduced and the following Bills, which are essential or to which some degree of urgency is attached:-

- Post Office and Telegraph (Money)
- Army and Air Force (Annual)
- Civil List
- Isle of Man (Customs) (formal)
- New Towns
- Cinematograph Films (Loans)
- Insurance Contracts (War Settlement)
- German Claims
- Distribution of German Enemy Property
- Agriculture (Tillage Subsidy)



On these assumptions no time before the Summer Recess can be found for the following Bills:-

Agricultural Safety  
 Irish Sailors' and Soldiers' Land Trust  
 Food and Drugs  
 Civil Defence  
Foreign Visiting Forces  
Geneva Conventions  
 Royal Irish Constabulary Widows' Pensions  
 Administration of Justice  
 Industrial Injuries  
 Food and Drugs (Scotland)  
 Law of Succession (Scotland)  
 Lands Valuation (Scotland)  
 Deer Poaching  
 Herring Industry  
Iron and Steel  
Monopolies and Restrictive Practices  
 Marine and Aviation Insurance (War Risks)  
 Motor Vehicles (International Circulation)  
Road Haulage  
 Housing  
 Housing (Scotland)  
 Naval Discipline  
 Reserve Forces  
 Atomic Energy  
 Hire Purchase

Some of these Bills have already been approved by the Legislation Committee: those underlined were mentioned in the King's Speech, but are still not ready for introduction.

4. If the Session is not extended, it thus looks to be impossible to enact the Bills mentioned in the King's Speech. The Second Reading of the National Health Service Bill could be taken before the Budget and the final stages after the Budget but before Easter; or, alternatively, the Second Reading could be postponed until after the Budget. In either case, it would seem to be impossible for the Bill to be passed by the House of Lords in time to collect the charges for which it provides before 1st June and about £4 millions of the estimated savings will be lost.

5. It is hardly worth while depriving Private Members of their rights and privileges on Fridays, since Fridays are difficult days upon which to take contentious Government Business. It may be necessary, therefore, to cut down the Whitsun Recess and for Parliament to meet early in the autumn for some weeks in order to pass the Iron and Steel Bill, the Committee stage of which could not be taken during the summer unless Parliament sits late into August. To take a contentious measure in the autumn will, however, delay the opening of a new session.

6. If the Cabinet feel that, in order to ensure the passage of the Iron and Steel Bill, Parliament should sit for some weeks in the early autumn and that the Whitsun Recess should be cut, it might be possible to introduce a number of measures (which could not otherwise be passed) such as the Agricultural Safety Bill, in the House of Lords at an early date and to consider them in the House of Commons in the autumn. There appears to be little prospect of major measures other than the Iron and Steel Bill being passed this Session, even if it is decided to have such an extension.

H.C.

S E C R E T

NOTE

C.(52) 36

The attached paper and C.(52) 23  
are relevant to Item 3 of the Cabinet  
Agenda for Thursday, 14th February.

Cabinet Office, S.W.1.,

13TH FEBRUARY, 1952.



S E C R E T

C.(52) 36

COPY NO. 74

13TH FEBRUARY, 1952

CABINET

GERMAN FINANCIAL CONTRIBUTION TO DEFENCE

Memorandum by the Secretary of State for Foreign Affairs

Paragraph 2 of Annex II to my memorandum on the German Contractual Settlement (C.(52) 31) summarised the present position concerning a German financial contribution to defence. I should, however, like to draw my colleagues' particular attention to one further long-term aspect of this question.

2. The Cabinet will remember that I reported to them in my paper C.(51) 15 of 13th November, 1951 (see especially paragraphs 3 - 5 and paragraph 13 of the Annex) that a gap was certain to arise between (a) the total amount which the Federal Republic could be expected to spend on defence and (b) the cost of building up German armed forces and the local support of Allied forces in Germany. While at that time it was uncertain whether such a gap would arise in 1952-3, there was no doubt that it would occur during 1953-4. It was agreed that we should, nevertheless, enter into negotiations with the German Federal Government, in conjunction with the United States and French Governments, but that we should make clear that we did so on the understanding that we were not prepared to accept any additional burdens ourselves.

3. I explained our position to Mr. Acheson and M. Schuman during the tripartite discussions on Germany in Paris and Rome last November and was able to reach agreement with them on a basis for negotiation with the Federal Government which protected our position for 1952-3. The instructions which the three Governments issued to the Allied High Commission in Germany laid down that they should seek an undertaking from the Federal Republic to cover the costs for 1952-3 of the support of Allied forces stationed in Germany, it being agreed that these would be confined to defence costs and reduced to the minimum compatible with military efficiency. In view of the uncertainty regarding the longer term future, we were not able to reach any firm decisions regarding the later period. But we agreed that we should seek an undertaking from the Federal Republic that it recognised a continuing obligation in respect of the support of the Allied forces in Germany and of its contribution to the European Defence Community (E.D.C.).

4. As I explained in Annex II to C.(52) 31, the negotiations on this subject are still in a comparatively early stage. I hope, however, that we shall be able to achieve a satisfactory agreement which will provide for the local costs of our forces in Germany in 1952-3 being met from the German financial contribution. There has not yet been discussion of the detailed estimates of the Allied forces and we shall no doubt have arguments about individual items in them. I do not, however, believe that the Germans will challenge the principle that the local costs of these forces in the first year should be met, either directly by the Germans or indirectly from their contribution to the E.D.C.

5. I feel, however, that I should warn my colleagues that this year's grace for 1952-3 is unlikely to be repeated in full or perhaps even in part in later years. There are still too many uncertainties for me to forecast a financial balance-sheet for 1953-4. But, on the assumption that our negotiations with the Federal Republic are brought to a fairly early conclusion and that the ratification of the ensuing Agreement and of the Treaty setting up the European Defence Community, which is to come into force simultaneously with it, are not unduly delayed, German forces should be growing fairly rapidly by 1953-4. This will mean that the Germans will be incurring increasingly substantial expenditure not only on the pay and accommodation of the members of the forces but also on providing equipment for them. Although it is our intention that certain prohibitions should still be maintained over the German armaments industry (see paragraph 7 of Annex II to C.(52) 31), there will, provided the European Defence Commissioner agrees, be a wide range of equipment which can be made in Germany and on which production may by then be getting into its stride. Indeed, from other points of view it is desirable that this should happen, both in order to reduce competing German claims on United States aid under the Mutual Security Programme but also because Germany, so long as she is not devoting part of her industry to arms production, has a competitive advantage over us in foreign trade which is bound to add to our own external difficulties. The situation may by 1953-4 be such that the cost of the German forces will absorb the greater part, if not the whole, of the German total financial contribution to defence assessed on the same basis as that applied to the NATO Powers.

6. I shall, of course, do my best to ensure that the local support of our forces in Germany is met from German funds for as long as possible. Events may occur which will falsify my prediction and enable whatever arrangements are made for 1952-3 to continue longer. I do not think, however, that we can count on this. I would, therefore, like my colleagues to realise that there is a likelihood that in 1953-4 we shall not be able to secure any substantial German contribution to the local costs of our forces. It is, I suggest, too early to consider now whether we should seek to avoid the financial consequences for ourselves of this change in the situation, by military redeployment, by seeking further United States aid or by cutting the local costs of our forces in Germany below what is now considered to be necessary for military efficiency, or by a combination of these methods.

A.E.

Foreign Office, S.W.1.,

13TH FEBRUARY, 1952.



SECRET

NOTE

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C. (52) 37

The Attached paper is  
relevant to Item 1 of the Cabinet  
Agenda for tomorrow, Thursday,  
14th February.

Cabinet Office, S. W. 1.,

13TH FEBRUARY, 1952.

CONFIDENTIALC. (52) 37COPY NO. 6113TH FEBRUARY, 1952

CABINET

EXPORTS OF FINISHED STEELMemorandum by the President of the Board of Trade

In paragraph 8 of C.(52) 27 there is the following statement about exports of finished steel:-

"Our ability to export steel is of immense importance both in bilateral trade negotiations and to our relations with the Commonwealth. We need not emphasise the long term importance to this country of maintaining its position as a major exporter of steel".

My colleagues may like to have the following information about finished steel exports in 1952.

2. The fundamental position is that although these exports are valuable in themselves (they should earn us well over £50 millions this year) and of great importance in the long term, they are primarily exported now to help to secure our vital imports and to supply the essential needs of the Commonwealth.
3. The present plan is that exports (other than tinplate and supplies for the oil companies overseas) will be limited in 1952 to 1,215,000 tons. This is over half a million tons below the level of exports in 1950 and 100,000 tons below the reduced level in 1951.
4. These exports cover a very wide range - extending from materials like wire, rails and sleepers to special steels and precision tubes which have a very high conversion value. They cannot be thought of as homogeneous products like ingots.
5. In 1952 steel exports will go to the following main markets:-

(a) Special European markets - 277,000 tons <sup>x</sup>

We have agreed to send steel to this amount to Sweden, Norway, Finland, Denmark, Portugal and the Netherlands on what is virtually a barter basis - i.e. in return for undertakings to supply vital raw material and food requirements, such as iron ore, pitwood, ferro alloys, zinc, pyrites, tungsten, newsprint, oils and fats and other food. Given the limitation on our coal exports steel is practically the one indispensable bargaining factor available to us if we are to secure these essential needs, which are in urgent demand throughout the world.

<sup>x</sup> In addition 25,000 tons is being reserved for possible negotiations with Argentina.



(b) Commonwealth countries (other than Canada) - 696,000 tons

The chief recipients will be Australia (about 200,000 tons) New Zealand and South Africa (about 80,000 tons each) and the Colonies (about 185,000 tons). We have been under great pressure to maintain deliveries in 1952 on at least this scale, which broadly represents only 65% - 70% of what was sent to these markets in 1950. Here again it is essentially a case of our having to send Commonwealth countries their vital needs (often required for defence purposes or for the production and transport of raw materials and foodstuffs) in return for the basic imports which we draw from them.

(c) Canada - 150,000 tons

This is a market of quite special significance. At the particular request of the Canadian Government we sent over 200,000 tons there in 1951, much of it material required for Canadian defence production and the development of natural resources (oil, non-ferrous metals, etc.). Mr. Howe asked us to maintain deliveries at as high a figure as possible in 1952 and has expressed warm appreciation of what we propose to do. The exports will pay us real dividends in the form of Canadian goodwill over our raw material requirements from the Dominion.

(d) Other markets - 67,000 tons

These comprise all European markets apart from the six countries mentioned at (a) above, all South American countries (except Argentina) and all the Middle Eastern countries. The amount mentioned is little more than a quarter of what was supplied last year. As in the case of Canada many of these markets are of great long term interest to the steel industry and we have been warned that there is a real risk that unless some additional steel can be made available in the near future these markets will be permanently lost to our competitors. Many of these countries are important suppliers of goods which we need and we are likely to find that here also our ability to supply steel will be a determining factor in their willingness both to sell essential requirements to us and to import from us consumer goods for which we are most anxious to find markets.

P.T.

Board of Trade, S.W.I.,

13TH FEBRUARY, 1952.

CONFIDENTIALC. (52) 38COPY NO. 6415TH FEBRUARY, 1952CABINETINDUSTRIAL BUILDINGNote by the Secretary of the Cabinet

By direction of the Prime Minister, I circulate a copy of a minute which he has received from the President of the Board of Trade about the building of factories.

(Signed) NORMAN BROOK

Cabinet Office, S.W. 1,

15TH FEBRUARY, 1952.

PRIME MINISTER FROM PRESIDENT OF THE BOARD OF TRADECapital Investment in 1952 in  
Board of Trade Industries1. Investment Limit

The limit set (C.C.(51) 20th Conclusions, Minute 3) for the Board of Trade is £24 millions. It is estimated that (allowing for increases in building costs) over £24 millions would be spent on existing projects already in progress and, broadly, no new job can start without stopping an equivalent amount of work already licensed. It is likely that about £10 millions of new licensing will be unavoidable to cover absolutely essential projects and statutory requirements.

2. Building Steel

Shortage of building steel will, however, probably restrict building even more. In the first quarter it was necessary to divide 10,640 tons among projects which demanded about 40,000 tons. The allocation for the second quarter is not yet settled, but it is expected to be about 17,500 tons against a demand for 36,000 tons.

3. Distribution of Steel

Many jobs in progress are therefore going without steel and coming to a stop. Steel for new projects can only be found at the expense of those in progress. I attach a list of some of the projects which are in jeopardy, most of which will evidently have to go without steel. A number of other important projects are having to proceed slowly with much less steel than they need.

4. Tests Applied

Cases are judged on their probable contribution towards defence, increased exports (particularly to dollar markets), the saving of imports (particularly dollars), the alleviation



of basic needs (e.g. raw materials), or marked technical advances and new products of importance to our economy. It is on these tests that, in my opinion, the John Deere project is not sufficiently important to be given a place in the programme.

Board of Trade,  
Horse Guards Avenue, S.W.1.,

14TH FEBRUARY, 1952.

SCHEMES FOR CAPITAL INVESTMENT IN BOARD OF TRADE  
INDUSTRIES WHICH ARE IN JEOPARDY BECAUSE OF THE  
INSUFFICIENCY OF BUILDING STEEL

Project	Cost	Importance	Remarks
<u>Industrial Cases</u>	£		
Albright & Wilson, Ltd.	1,282,850	For the manufacture of phosphorus and derivatives for defence and general industrial use.	Only 25 tons issued (for safety work) out of a requirement of 2,394 tons.
<u>Phosphates</u>			
Albright & Wilson, Ltd.	236,679	For the manufacture of polyphosphates used in producing synthetic detergents for home use and export.	
<u>Paints, etc.</u>			
National Titanium Products	590,000	Direct exports to Canada and indirect exports of all types. World shortage of these products.	
National Smelting Corporation, Widnes.	28,610	Lithopone and paint pigments.	
Joseph Freeman & Co., London.	33,072	Indirect exports.	
<u>I.C.I. Projects</u>			

Note: (I.C.I. receive a bulk allocation of steel and the division between various projects is decided in consultation with them; the following are examples of the reductions which occurred in the first quarter of 1952.)

Alkali expansion scheme	1,050,000	Basic development of caustic soda, soda ash, etc.	Only one-third of requirements met.
Nitric Acid, Billingham	235,000	Basic chemical	No steel allocated.
Arcton 4 H.F. & Chloroform	114,000	Defence requirements	} Only one-third of requirements met.
Sodium Peroxide/ Perborate	133,000	Basic chemical	
V.C. Monomer Plant	67,000	Basic chemical	



Project	Cost	Importance	Remarks
Fluon, Hillhouse	£ 85,000	Plastic for defence	No steel allocated
Nylon Composition, Billingham	35,000	Development of new uses of nylon	
Polythene, Wilton	155,000	Plastic for electric cables	
Plastic Research Laboratories, Welwyn	135,000		Only one-third of requirements met.
Kirkby Works Stage II	1,305,000	Ministry of Supply project	Less than one- half requirements met.
Nylon Polymer, Billingham	514,000	Basic polymer for production of nylon	Only one-half requirements met.
Sulphuric Acid, Ardeer	300,000	Basic chemical	Only 60% of requirements met.
<u>Rubber Goods and Tyres</u>			
Firestone Rubber Co., Brentford	24,440	Additional production for export.	
Tuck & Co.	39,624	"Planned out". Old established indus- trial rubber goods producers. 44% direct export.	
Wm. Warner & Co., Ltd., Barking	32,304	Rubber thread pro- ducers (18% U.K. pro- duction) food jar sealing materials etc. 17% of production goes to direct export.	Replacement of premises lost by civil fire.
Dunlop Rubber Co.	51,800	(a) to provide space for warehousing, (b) to allow clearance of other premises for cotton production (c) to provide dis- tribution and ser- vicing centre for Scot- land.	
<u>Polishes</u>			
Chiswick Products, Ltd., Chiswick	73,000	Good exports to all over the world.	

Project	Cost	Importance	Remarks
<u>Textiles</u>	£		
<u>Cotton Spinning</u>			
A. & A. Compton & Co., Ltd.	45,000	} Schemes for improving the efficiency and export potential of the cotton industry to meet foreign competition.	
Thomas Aitkins & Sons, Edenfield	17,200		
<u>Cotton Weaving</u>			
Calico Printers Association, Ltd., Middleton	68,461		
James Finlay & Co., Ltd.	194,221		
James Finlay & Co., Ltd., Catrine	201,000		
E.E. Bottonley, Mossley	35,000	}	
Cellular Clothing Co., Derby	44,750		
<u>Rayon</u>			
British Celanese, Derby	232,000	}	Major expansion scheme to increase exports.
Golborne	63,700		Export. Alterations to spinning rooms, etc.
<u>Wool</u>			
J.J.L. & Co., Peate Ltd., Guiseley (Woolcloth)	28,070	}	These projects are all designed to improve efficiency and also to increase exports, particularly to the dollar area.
Carpet Trades Ltd., Dewsbury	59,000		
J. Holdsworth & Co., Ltd., Halifax (Moquette)	29,500		



Project	Cost	Importance	Remarks
	£		
<u>Hosiery</u>			
Klinger Mfg. Co. Ltd., Edmonton	19,845	Modernisation to increase efficiency and exports of nylon stockings.	
Ballito Hosiery Mills, Ltd., St. Albans	70,000	To increase exports of nylon stockings.	
<u>Clothing</u>			
Charles G. Dickens Ltd., Catford	20,000	To increase exports of lingerie.	
Percival Newman Ltd., Croydon	22,492	Good exporters, evicted by their landlord.	
E.O. Smith & Co., Nottingham	15,000	To increase exports.	
<u>Footwear</u>			
British Bata Shoe Co., Ltd., Tilbury	18,300	To increase exports to most countries including U.S.A. and Canada.	
<u>Furs</u>			
A. Stanford & Co., Ltd., London.	19,200	Fur exporters.	
<u>Metalwares</u>			
Hygiene Wire Works, Ltd., Mitcham	35,000	Exports to U.S.A.	
<u>Cutlery</u>			
Thos. Turner & Co. (Cutlers Sheffield) Ltd.	19,580	Good exporters.	
<u>Furniture</u>			
Cherry Perkin & Cornish Ltd., Spinauld	30,000	Production for export.	
Chas. Newth & Sons, Ltd., Bristol	22,000		Rebuilding after fire.
<u>Linoleum</u>			
Michael Nairn & Co., Ltd., Kirkcaldy	60,000	To increase already high exports - especially to Canada.	
Tayside Floorcloth & Co., Ltd., Newburgh.	26,500	Installation of new machinery will cheapen costs and thus enable firm to meet foreign competition and increase already good exports.	

Project	Cost	Importance	Remarks
<u>Newspapers</u>			
Sheffield Telegraph, Ltd.	45,000	} Our newspaper rebuilding programme, which allows only for the reinstatement of war damage, has been almost entirely held up for lack of steel.	
Essex Chronicle, Chelmsford.	13,000		
Daily News Ltd., London	120,000		
Morning Advertiser, London.	80,000		
London Express Ltd.	35,000		
Northampton Mercury Co., Ltd.	13,000		
<u>Printing</u>			
Book Centre Ltd., Neasden	16,755	Turnover £1½ million of which 25% for export (half to dollar countries).	
Oxford University Press	28,317	For distribution of Bibles, etc., largely to dollar markets.	
Bennett Bros. Ltd., Bristol.	100,540	40% for H.M.S.O. "indirect" exports of pamphlets for engineering and textile trade.	
John Goodman & Son Ltd.	23,000	Printers of catalogues etc. for exporting industries.	
<u>Pottery</u>			
Hanovia Products, Ltd., London.	29,000	Liquid gold producers. Essential for pottery for export.	
<u>Glassware</u>			
The City Glass Bottle Co., Ltd.	210,000	New town factory. Manufacturers of food and drink containers for home use and export.	
Key Glass Works Ltd.	45,000	-do-	
United Glass Bottle Manufacturing Ltd., Greenwich	32,000	Milk bottle manufacturers and glass containers for export.	



Project	Cost	Importance	Remarks
<u>Tobacco</u>	£		
R. & J. Hill Ltd., London	41,687	Cigarette manufacture. Home and export.	
<u>Patent Medicine, etc.</u>			
Rickitt & Colman Ltd., Hull	184,000	Efficiency scheme. Excellent export figures.	
<u>Industrial Estates (in Development Areas)</u>			
<u>N. Eastern</u>			
Toledo Woodhead Springs Ltd., Aycliffe	41,391	Leaf springs and washers for motor industry.	
Armstrong Cook Co., Ltd., Team Valley	14,200	Floor tiling for hospitals.	
<u>Wales</u>			
Murphy Radio Ltd., Spirwaun	11,500	Office block for existing works.	
R.H. Lowe & Co., Ltd., Swansea.	24,651	Extension to provide space for exports to Canada.	
<u>Scottish</u>			
J. Drummond & Sons Ltd., Greenock.	360,000	Tube fabrications in containers for foodstuffs.	
A. Stevenson & Son Ltd., Hamilton	84,710	Broadloom carpets made only for export.	
Westclose Ltd., Vale of Leven (U.S. subsidiary)	66,106	Extension for production of specialised parts at present imported from U.S.A.	
Hayward Tyler & Co., Ltd., East Kilbride	128,885	Pumps for the oil industry. Bottling machinery, etc.	
International Business Machine Corporation, Greenock	352,385	Dollar-saving. Electric typewriters and punch- card machinery for home market and export to Commonwealth.	
Scottish Industrial Estates Ltd., Queenslie.	41,105	Canteen for employees at new Rolls Royce works.	
Imperial Typewriter Co. Ltd., Hull	334,275	Exports to non-dollar markets.	(Not in a Development Area, but sponsored because of heavy unemployment in Hull)

Project	Cost	Importance	Remarks
<u>Port Warehouses</u>			
Lloyds Packing Warehouse Ltd., Manchester	275,000	} The reinstatement of war damage to port warehouses is urgently required to assist the turn-round of shipping. A vast amount of warehousing space is still unusable, particularly in London.	
Standard Wherry Ltd., London	52,547		
Beck & Pollitzer Ltd., London	60,000		
<u>Insurance</u>			
Lloyds (Underwriters)	2,304,309	Lloyds expanding market of great importance, particularly for marine and aviation insurance, cannot expand further unless Lloyds is rehoused. Invisible earnings are over £25 million mainly in dollars and a 10% increase could take place if a new building can be put up.	
<u>Research</u>			
Motor Industry R. Association, Nuneaton	310,500	To provide the only high-speed testing track in the United Kingdom.	
British Rayon R. Association, Heald Green	336,000	This first general rayon research project is essential to keep an industry in front of foreign competitors.	
<u>Hotels</u>			
Francis Hotel, Bath	104,394	More accommodation for overseas visitors is urgently needed. The situation in Bath is particularly bad.	
George Hotel, Kettering	32,000	"Stewart and Lloyd are pressing us to provide accommodation for overseas buyers visiting their nearby works."	



S E C R E TC.(52) 39COPY NO. 6915TH FEBRUARY, 1952CABINETREFORM OF THE NORTH ATLANTIC TREATY ORGANISATIONMemorandum by the Secretary of State for Foreign Affairs

My colleagues may like to know that the North Atlantic Council, during its meeting at Lisbon, will discuss a scheme for the reform of the North Atlantic Treaty Organisation (N.A.T.O.).

2. Agreed Proposals

The Council will presumably endorse the following proposals, on which the Council Deputies are all agreed:-

- (a) The North Atlantic Council will be in permanent session (like the Security Council). Whenever necessary, and in any event three times a year, the Council will meet at Ministerial level. At other meetings Governments will be represented by Permanent Representatives of sufficient standing to act on their behalf.
- (b) The Council Deputies, Financial and Economic Board and Defence Production Board will be abolished and their functions vested in the Council, which will set up such committees as it thinks necessary.
- (c) The Military Committee and the Standing Group will remain, as organs subordinate to the Council.
- (d) The Headquarters of the Organisation and all its civilian agencies will be located in one place, where the ministerial meetings will normally be held. The Military Committee and the Standing Group will remain in Washington.
- (e) A Secretary-General will be appointed to direct the international staff, which should be unified and strong in quality though not in numbers.

3. Points still in dispute

There are two main questions on which the Deputies could not agree and which must be decided at Lisbon: the location of the Headquarters and the respective functions of the Chairman of the Permanent Representatives and the Secretary-General.

(a) Location

The choice lies between London (where the Council Deputies are now established) and Paris. The Americans believe that the effectiveness of N.A.T.O. depends on its being close to European problems and

other international organisations situated in Paris. Other members support the move to Paris on grounds of administrative convenience. To my mind, London is the natural Atlantic capital and it is only here that N.A.T.O. can develop on right lines. This view is now shared by several other members, but probably not by a majority.

(b) Functions of the Secretary-General and the Chairman of the Permanent Representatives

We propose that the Chairman of the Permanent Representatives should be elected from among their number to preside over their meetings; the mainspring of the Organisation should be the Secretary-General, who would co-ordinate the work of the Organisation and follow up the decisions of the Council. The United States propose that these latter functions should belong to the Chairman of the Permanent Representatives, who should not be a member of a national delegation and who would have direct access to Governments. The solution to this problem probably lies in finding the right man. If he is of ministerial standing, we could agree that he should be both Secretary-General and Chairman of the Permanent Representatives.

4. I shall continue to make strenuous efforts to obtain agreement on the headquarters remaining in London, and, if I am successful, I shall be prepared to agree to the appointment of a Secretary-General from a country other than the United Kingdom. A Canadian would be best of all.

A.E.

Foreign Office, S.W.1,

15TH FEBRUARY, 1952.



CONFIDENTIALC.(52) 40COPY NO. 7315TH FEBRUARY, 1952CABINETFUTURE OF THE COUNCIL OF EUROPEMemorandum by the Secretary of State for Foreign Affairs

I have been giving some thought to the difficult problems relating to the Council of Europe. Here are some reflections.

The movement for unity in Europe, which led to the creation of the Council of Europe, is now flowing along two main streams: the Atlantic Community, a wide association of states which, without formal surrender of sovereignty, is achieving increasing unity of purpose and action through the machinery of the North Atlantic Treaty Organisation; the European Community, a small group of states which are moving towards political federation by the progressive establishment of organisations exercising supranational powers in limited fields.

2. The Council of Europe is stranded between these two streams. Many members of the Assembly feel despondent about the future of Strasbourg and some are prepared to admit that, in its present form, the Council of Europe is out-of-date and superfluous. In an attempt to acquire "limited authority but real powers", the Assembly has produced a draft new statute of the Council of Europe, which will be on the agenda at the next session of the Committee of Ministers. This transforms what is now a purely consultative body into a quasi-federal institution with legislative and executive powers and the right to be consulted by member Governments on certain matters within its competence. It would therefore be difficult for us to remain in the Council of Europe if the new statute were adopted.

3. A more promising future for the Council of Europe would lie in a remodelling of the organisation so that its organs could serve as the institutions of the Schuman Plan, the European Defence Community and any future organisations of the same structure and membership. The advantages would be:-

- (a) the Council of Europe would be given valuable work to do;
- (b) the reduplication of European bodies would be avoided;
- (c) the Schuman Plan and the European Defence Community would be provided with ready-made machinery.

The position of the members of the Council of Europe who are not members of the Schuman Plan and the European Defence Community would have to be worked out between all the Governments concerned.

Recommendation

4. I therefore suggest that I should be authorised:-
- (a) to propose to my fellow Foreign Ministers on the Committee of Ministers that the Council of Europe should be reconstituted to permit the Committee of Ministers and the Assembly to become institutions of the Schuman Plan, the European Defence Community and any future European organisations of the same structure and membership;
  - (b) to discuss the position in the reconstituted Council of Europe of countries which are not members of the organisations mentioned in (a) above.

A.E.

Foreign Office, S.W.1,

15TH FEBRUARY, 1952.



CONFIDENTIALC.(52) 41COPY NO. 4515TH FEBRUARY, 1952CABINETGERMAN CONTRIBUTION TO WESTERN DEFENCEMemorandum by the Secretary of State for Foreign Affairs

The German contribution to Western defence is the counterpart of the new Contractual Agreement between Germany and the three Occupying Powers, to which I drew my colleagues' attention in my memorandum C.(52) 31 of 8th February.

Paris Conference on the Establishment of a European Defence Community

2. Owing to French opposition to any direct national German contribution to the North Atlantic Treaty Organisation (N.A.T.O.), it was agreed at the North Atlantic Council meeting in Brussels in December, 1950, that a German contribution should be made through a European Army on the understanding that certain conditions would be fulfilled. The chief of these were that the European Army must:

- (a) strengthen the integrated defence of the North Atlantic area;
- (b) be integrated into the N.A.T.O. framework; and
- (c) promote the closer association of the countries of Western Europe and tie Western Germany more firmly to the West.

3. The North Atlantic Council at Lisbon will have to decide whether the plan for the European Defence Community produced by the Paris Conference fulfils these conditions and provides an effective German defence contribution. The military effectiveness of the Paris proposals has been examined in Washington by the Standing Group and the Military Representatives Committee on the basis of a report from SHAPE. Their conclusion is that, provided flexibility is maintained in carrying it out, the plan is militarily acceptable and provides the best and most rapid means of achieving a German defence contribution.

4. The long-term aim of the European Defence Community is to pave the way for a European federation. Our policy is to welcome this and similar plans of a supranational European character, provided the European Community thus constituted forms part of a wider Atlantic Community.

Relations between the European Defence Community and N.A.T.O.

5. The proposals for regulating the relations between the European Defence Community and N.A.T.O. are as follows:-

- (a) The European Defence Forces will be placed under the command of SACEUR and will thus in practice be controlled by the North Atlantic Council.

- (b) The casus foederis for both organisations will be made the same by a protocol to the North Atlantic Treaty and by articles in the European Defence Community Treaty which will provide that an attack upon one will be regarded as an attack upon the other. This involves no new commitment for the United Kingdom. We are already bound by the North Atlantic Treaty to five of the European Defence Community members. To the sixth, Germany, we gave in September, 1950, in conjunction with the United States and French Governments, a unilateral guarantee. The effect of the present proposal is to spread the load of that guarantee to the other N.A.T.O. Governments and to obtain from Germany a reciprocal undertaking.
- (c) The two organisations will be linked by -
  - (i) reciprocal consultation between the North Atlantic Council and the European Defence Community Council and joint meetings of the two Councils;
  - (ii) close co-ordination at the technical level between members of the staffs of the civilian agencies of N.A.T.O. and the European Defence Community;
  - (iii) as soon as the European Defence Forces have been placed under the command of the Supreme Allied Commander, Europe, the presence of officers of the European Defence Forces as members of his own and subordinate Headquarters.

#### The position of Germany

6. The relationship between N.A.T.O. and the European Defence Community is complicated by the position of Germany which though an equal member of the European Defence Community has not yet been admitted to N.A.T.O. The presence of German representatives at joint meetings between the North Atlantic Council and the European Defence Community Council and the close liaison which is to be established between the civilian and military agencies of both organisations will, in effect, be the first step towards German membership of N.A.T.O. German admission to N.A.T.O. is the logical consequence of a German contribution to European defence, and is therefore inevitable, in the long run, and indeed desirable, because a rearmed Germany will be easier to control in a body where the United States and United Kingdom are represented. Sooner or later the Germans themselves will press for it, and, once they are making an effective defence contribution, their claim should be admitted.

On the other hand, there are various reasons for not pressing German membership at this moment:-

- (a) There would be strong opposition in France. French public opinion will only accept German rearmament with the greatest misgivings, and if we are to lead it forward to German membership of N.A.T.O. we must do so gently step by step.



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- (b) German opinion may also need time, after the Federal Republic's entry into the European Defence Community, to prepare itself for the further step of membership of N.A.T.O. Such membership will appear to many Germans to pose even more acutely the apparent choice between integration with the West and the reunification of Germany.
  - (c) The Russians likewise would probably regard the Federal Republic's membership of N.A.T.O. as a more decisive step than her entry into the European Defence Community towards the breakdown of the quadripartite system in Germany (including Berlin, where our vulnerable position would become increasingly more exposed) and towards the mobilisation of West German resources in the service of American aggressive aims. There would be advantage in our allowing the Russians, too, time to accustom themselves to the first step before discussing the second.
  - (d) Once Germany joined N.A.T.O., our troops would have to be in the Federal Republic on normal N.A.T.O. terms. We should stand far less chance than at present of securing the special facilities and the very important financial support (£150 millions in 1952-53) which we hope to obtain under the present arrangements.

A.E.

Foreign Office, S.W.1,

15TH FEBRUARY, 1952.

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CONFIDENTIAL

C.(52) 42

COPY NO. 68

16TH FEBRUARY, 1952

CABINET

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GERMANY: ATTITUDE TO REARMAMENT

Memorandum by the Secretary of State for Foreign Affairs

On 7th February I circulated to my colleagues in C.(52) 23 a brief review of certain long-term internal trends in Germany. I think my colleagues may also be interested to see the attached letter from the High Commissioner describing the German state of mind on the rearmament question. The important point Sir Ivone Kirkpatrick brings out is that the overwhelming majority of the German people are at present opposed to German rearmament and those who favour it regard it as a necessary evil. The motives behind this view are very mixed but on the whole they are respectable. Sir Ivone Kirkpatrick's letter gives the background to the recent Bundestag debate on the German defence contribution in which the Federal Chancellor's majority was smaller than that which he secured last month on the Schuman Plan.

I see no reason to dissent from Sir Ivone Kirkpatrick's general conclusion.

A.E.

Foreign Office, S.W.1,

16TH FEBRUARY, 1952.



Letter of 6th February, 1952, from the United Kingdom  
High Commissioner in Germany to the Foreign Office

I should like to send you in this letter a few reflections on the problem of Germany's military contribution, not because I wish you to do anything about them but because I feel that it may be useful to you if I can succeed in shedding light on the German state of mind.

As you know, German public opinion is ill-informed, confused and bewildered. In addition, the issue is bedevilled by internal party politics. But in addition to these factors, our negotiations are hampered by what I should describe as a fundamental difference of approach. Let me, in a possibly over-simplified form, define the difference as follows:-

1. Our heart tells us, although our reason may not, that the Germans are a fighting race, who should entertain no intrinsic objection to bearing arms. We believe that they should understand that their own security is at stake, that there is a justifiable lack of confidence in Germany abroad which we can reasonably ask them to assuage, and that in short we are justified in putting a certain number of strings on German rearmament. The Germans, on the other hand, feel that we are asking for a very big sacrifice, namely unpopular military service, much larger financial burdens, and considerable risk in the initial period. Consequently the Bundestag and the German people cannot reasonably be expected, in addition to paying the price of this sacrifice, to pay the price of accepting a large number of heterogeneous allied demands running from restitution to the perpetuation of allied measures for the deconcentration of German industry. On the contrary, Germany as the party in the transaction which is being called upon to tread the path of sacrifice, might legitimately lay down conditions.
2. When we talk of associating Germany with the west, we are to a smaller (Washington) or larger (Paris) degree conceiving an operation in two stages. The first stage in which Germany, so to speak, works her passage, and a second stage in which she attains full membership of our association. The Germans, on the other hand, think that association with the west means full and equal membership now. The Chancellor argues that success or failure in the whole operation depends on mutual confidence. If we place the Germans on probation for a period, we are demonstrating our lack of confidence. There will consequently be no mutual confidence, and as a result our relations will never reach a point at which full membership of the association will become a practical possibility. In other words, our only chance of success is to take our courage in our hands and stake on the success of the operation. Half measures will invite certain failure.

The difference of approach which I have attempted to outline above in admittedly over-simplified terms has had its impact on all our negotiations.

And now I should like to say an additional word on the question of German reluctance to rearm. I sometimes wonder whether the fact of German reluctance, although it is recognised in England and elsewhere, is really appreciated because it is so completely out of harmony with German tradition and with our experience after the first world war. But it is a fact that the vast majority of the German nation are standing shivering on the brink of rearmament although I believe that if they could be induced to take the plunge, they might well find that they enjoy the bath. This is an odd state of affairs, especially at a time when we notice that the Germans are showing so many of their old characteristics and faults. But it may help to illuminate the problem if I try to describe the various groups who are opposed to rearmament and the grounds on which they oppose it.

First there are the women, who are pacifists at heart and wish at any cost to prevent their sons ever being called upon to go into battle. Allied to the women is the pacifist section of the Evangelical Church. As Niemöller says: "The Church's duty is to bridge the gap between East and West, as it is better to obtain peace through pastors than war through politicians." Secondly, there are the students in the Universities. Their confidence has been undermined by the events of recent years. Their attitude is cynical, they are politically apathetic and opposed on selfish grounds to interference with their careers. Then there is a fairly large section of opinion which has its counterpart in France. These people believe that Germany has tried to become a World Power twice and has failed under conditions much more favourable than are likely to arise in the future. They are sick of war, sick of the burden of Empire, entertain no large nationalist ambitions and would be quite content if Germany could eke out a tolerable economic existence without having to take sides with either the eastern or western giant. If the Russians came, they would have to compound as best they could; and this would be better than another war on German soil. Next come the people who genuinely fear the return of the German Generals to public life. They are mostly to be found in the ranks of the SPD (Brauer is one) or in the Trade Unions. But there are some in other parties, even the FDP. For example, Gilchrist tells me that at Stuttgart many of the FDP are of this way of thinking. Then come the protagonists of German unity who claim that Adenauer is putting the cart before the horse and that the proper policy is to achieve German unity first and then to consider rearmament. According to them the rearmament of Western Germany will postpone unity until the Greek Kalends. Therefore it is a bad policy.

There are also opponents of rearmament who have no reputable motives. These of course include the Communists and those elements who on various grounds dislike any association with the West. Then come what I term the exporters. That is to say, those people who believe that Germany's proper course is to take advantage of the present situation to capture overseas markets. After this has been done Germany would be in a much more powerful position and could decide the terms on which she wishes to offer us her collaboration. Lastly there are the blackmailers. They say that the Allies maltreated and disarmed Germany even to the extent of blowing up airfields, air-raid shelters, docks, etc., long after the existence of the Russian peril was openly recognised in western countries. The Allies, they claim, should bear the consequences of their own folly and it is therefore reasonable for Germany to say that she will make no military contribution unless the honour of the German army is restored, unless the war criminals are released, unless all controls on German industry are lifted, unless complete equality of rights is given, unless the bombing of Heligoland or alternative targets stops, or unless satisfaction is given to some particular vested interest with which they are concerned.

All the groups enumerated above when added together constitute a formidable proportion of the electorate. What have we got to set on the other side? Only a few professional warriors, who would like to resume the profession of arms, and that section of the population which, whilst disliking German rearmament, is prepared to accept it as part of a satisfactory general arrangement because, from motives of Germany's self-interest, they believe in association with the West. But it is noteworthy that these people in their appeals to the electorate take the line that military service represents a



sacrifice which, they explain, must be endured on wider grounds. In a word, whilst there are many who regard German rearmament with great repugnance, there are very few who would welcome it for its own sake.

What conclusions should we draw from all this? In a sense no particular conclusion, because we have been told the facts often enough. Nevertheless it will do no harm if in handling the various individual problems as they arise we constantly keep the facts in mind. As I have said before, we are taking a calculated risk in attempting to associate Germany with western defence; and once we have decided to take this risk we must pay regard to the state of feeling here as elsewhere, show imagination and not recoil from the consequences of our own action. "Il faut vouloir les conséquences de ce que l'on veut."

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C.(52) 43

17TH FEBRUARY, 1952

CABINET

NEGOTIATIONS WITH EGYPT ON DEFENCE AND THE SUDAN

Memorandum by the Secretary of State for Foreign Affairs

With reference to the meeting of the Cabinet on 14th February (C.C.(52) 17th Conclusions, Minute 4), I attach for the consideration of my colleagues the draft instructions which I would propose to send to H.M. Ambassador in Cairo concerning the resumption of negotiations with the Egyptian Government.

2. These instructions are in the form of -
- (a) A draft telegram giving the text of the communiqué which we and the Egyptian Government might issue if and when agreement has been reached to resume negotiations (Stage III of Annex I to C.(52) 32) - Annex A.
  - (b) A draft despatch filling in the background and setting out the results which we might hope to see emerge from the negotiations, both in respect of defence and the Sudan - Annex B.

A.E.

Foreign Office, S.W.1,

17TH FEBRUARY, 1952.



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A.E.

Foreign Office, S.W.1,

17TH FEBRUARY, 1952.

ANNEX ADRAFT TELEGRAM TO H.M. AMBASSADOR, CAIRO

My telegram No. 362 /of 14th February: Resumption of Negotiations/.

You may now discuss with the Egyptian Prime Minister the issue of a communiqué on the lines set out in paragraph 3 of this telegram. The communiqué should of course be issued by both Governments, but only when a definite agreement has been reached to resume negotiations on an agreed basis. Further instructions indicating our objectives in the defence negotiations and the limits to which I am at present prepared to go in respect of the Sudan follow by despatch.

2. I realise of course that a statement on the lines of the suggested communiqué will not give the Egyptian Prime Minister what he wants, namely, acceptance by us of the principle of complete evacuation of the Canal Zone and recognition of King Farouk's title to the Sudan. I am not however prepared to concede the principle of evacuation in advance of a satisfactory agreement upon the other points of vital importance to us, such as the future of the base, the creation of a joint air defence organisation, and Egyptian participation in the proposed Middle East Command, carrying with it the grant of full facilities to Allied forces in time of war or imminent menace of war in accordance with the Four-Power proposals. Nor can I concede recognition of King Farouk's title; least of all before there has been a proper opportunity for the Sudanese to be consulted. At the same time I well understand the importance of making as generous a contribution as possible, both to enable the negotiations to be resumed in the right atmosphere and to strengthen the Egyptian Prime Minister's position in his own country. The text in the next paragraph of this telegram represents the limits to which I can go, and you should not depart from it without reference to me.



3. Following is text of suggested communiqué.

Begins

Her Majesty's Government and the Egyptian Government have agreed to resume discussions with a view to reaching a defence settlement [and an agreement regarding the Sudan]. Her Majesty's Government have agreed, on the assurance of the Egyptian Government that the latter will take such steps as are appropriate and open to it to ensure a return to normal conditions in the Canal Zone area, to start reducing Her Majesty's forces in that area as soon as conditions make this practicable. It is the sincere desire of Her Majesty's Government to reach an agreement with the Egyptian Government for arrangements for the adequate defence of the Canal Zone which will provide for a gradual assumption of responsibilities by the Egyptian armed forces. Both Governments recognise and agree that the successful defence of the Middle East is an international responsibility and depends on the collaboration of all the states concerned, in time of peace as in time of war. At the same time, they recognise that such collaboration can only be successful if it is freely given in a spirit of partnership and is compatible with the national dignity of all parties.

Ends

ANNEX BDRAFT DESPATCH TO H.M. AMBASSADOR, CAIRO

February, 1952.

Sir,

After the frustration of repeated efforts to reach bilateral agreement with the Egyptian Government on the problems of defence and the future of the Sudan, H.M. Government decided in the course of 1951 that an attempt should be made to find a solution of the defence question through the medium of international co-operative defence arrangements in the Middle East. The Egyptian Government, however, rejected without discussion the far-reaching proposals for the reorganisation of Middle East defence which were put forward on 13th October, 1951, by the United Kingdom, United States, French and Turkish Governments. The Egyptian Government then proceeded to abrogate the 1936 Treaty and the 1899 Condominium Agreements in respect of the Sudan, and made every effort to drive our forces out of the Suez Canal Zone by a combination of terrorism, intimidation, and administrative obstruction. In the face of H.M. Government's determination to stand on their rights under the 1936 Treaty and to take whatever measures were necessary to this end, the Egyptian Government failed in their purpose. Faced by similar intransigence on the part of the Egyptian Government in the case of the Sudan, H.M. Government proceeded with their plans to encourage the evolution of the country towards self-government.

2. The events of the last four months have in no way altered H.M. Government's determination to fulfil their defensive responsibilities in the Middle East at whatever cost. Their attitude remains that they do not recognise the purported abrogation by the late Egyptian Government of the 1936 Treaty and the Condominium Agreements, and that they intend to maintain their position in the Canal Zone under that Treaty till such time as it has been possible to reach a fresh and freely negotiated agreement with Egypt to replace it. Failing such agreement with Egypt they must maintain



British forces in the Canal Zone, and ensure that the Sudan continues to make orderly progress towards self-government and eventually self-determination. At the same time H.M. Government are fully conscious of the difficulties of maintaining not only British commercial and cultural interests in Egypt but also an operative base in the Canal Zone in the face of a hostile Egyptian Government and people. They do not underestimate the strategic as well as political importance of Egyptian co-operation to the successful organisation of Middle East defence. They have also to take into account the rising tide of nationalism in the Middle East and the fact that in 1956 the Anglo-Egyptian Treaty may be revised at the request of either of the parties, and that it is unlikely that the neutral authority to whom we should have recourse in the event of disagreement between ourselves and Egypt would decide in favour of the continuance of the Treaty on anything like its present terms.

3. The replacement of the Wafd Government by the present Government consequent upon the riots in Cairo on the 26th January, the indications which have been received that the latter are anxious to reach a settlement, and the improvement which has already taken place in the situation in the Canal Zone give us an opportunity to resume the negotiations which the Wafd Government had broken off. The present Egyptian Government are not in every respect satisfactory from H.M. Government's point of view and it remains to be seen whether they will be able to command sufficient support in the country to maintain their position. But the risk that they might be unable to give effect to a new agreement with H.M. Government is one which must be taken, since, if we cannot reach agreement now, we must look forward to a recrudescence of anti-British activities in Egypt, the virtual liquidation of British commercial interests there and renewed attacks on our position in the Canal Zone on such a scale that our base would once again be rendered inoperative as a war-time base.

4. I have therefore worked out a line of approach to the Egyptian Government which is intended to provide for a resumption of discussions on the basis of a "neutral" agenda so designed as not to prejudice the main issues

and to encourage objective discussion of our points of difference. Within the framework of this agenda we should be able to develop our thesis regarding the need for a Middle East Command and for Egyptian participation in it. Dependent on Egyptian acceptance in principle of this thesis, we should then hope that the way would be open to work out the necessary arrangements for an Allied base and air defence organisation in Egypt as well as for other matters which need to be covered. It is clear that all such arrangements must be brought within the four corners of the Four-Power proposals, which H.M. Government still regard as the most satisfactory foundation for the organisation of Middle East defence and the solution of Anglo-Egyptian differences.

5. I consider, however, that negotiations might first be opened on an Anglo-Egyptian basis. Our object in these first contacts should be to prepare the way for a conference of all the Powers sponsoring the establishment of the Middle East Command. The stage at which this broadening out of the negotiations should take place cannot at this stage be foreseen, and can only be decided when the course and prospects of our preliminary discussions with the Egyptians can be assessed.

6. Your Excellency was accordingly instructed in my telegrams Nos. 332 and 333 of the 8th February and No. 362 of the 14th February to attempt to seek agreement with the Egyptian Government on the resumption of discussions on defence. You were also instructed to attempt the formulation with the Egyptian Government of the agreed Agenda to which I have referred above, which should be along the following lines:-

- (1) The conception of and need for an Allied Middle East Command:  
Egypt's participation in such a Command.
- (2) The need for an Allied military base to support such a Command,  
and its possible organisation, e.g., control of the base, technical  
and administrative personnel needed for maintenance of national  
equipment, arrangements for maintenance of base installations,  
airfields, etc.



- (3) Defence of the Allied Base, including allocation of responsibilities -
  - (a) Land defence.
  - (b) Air defence.
  - (c) Local protection.
- (4) Future of British land and air forces in Egypt.
- (5) Training and equipment of Egyptian armed forces to undertake new responsibilities.
- (6) Facilities for allied personnel and military equipment remaining in Egypt, including personal and fiscal privileges.
- (7) Facilities for the use of airfields by allied military aircraft in transit.
- (8) Facilities for movement and stationing of forces and war material in Egypt in the event of war.
- (9) Supersession of the 1936 Treaty.

7. If you are successful in securing Egyptian agreement to the resumption of discussions on defence and to an agenda along the lines proposed, it may be desirable to suggest the issue of a joint communiqué in the terms of the draft contained in my telegram No. of the February see Annex A7.

8. If a communiqué on these lines can be agreed, it should be possible to set negotiations in train without delay. In my view it is essential to their ultimate success that discussions should be conducted so far as possible in secret, so that the difficulties caused by indiscretions to the Press and bombastic public pronouncements by Egyptian statesmen should not hamper our efforts to the same extent as in the past. I consider that discussions would best be started in Cairo and as I have already indicated, I should be willing to come to Egypt personally at the appropriate stage if in your judgment this would contribute to their success. While it is clearly impossible

to foresee how negotiations will develop or what adjustments or concessions may meet the political requirements of both Governments, the furthest that H.M. Government would be prepared at present to go, whether in direct negotiations with the Egyptians or in a wider conference, would be an agreement in principle along the following lines:-

- (1) Subject to agreement on the points enumerated below, H.M. Government agree to the progressive withdrawal from Egypt of mobile fighting units of the British land forces in Egypt within a limited period to be determined and subject to conditions to be agreed. Only such British land forces would remain in Egypt as may be considered by the Supreme Allied Commander, Middle East, in agreement with the Egyptian military authorities to be necessary to supplement the Egyptian land forces available.
- (2) H.M. Government will turn over to the Egyptian Government the present military base installations on the Suez Canal. The Egyptian Government agree that these shall forthwith be made available free of cost to the Allied Middle East Command.
- (3) The Egyptian armed forces shall assume the task of providing for the security from land and air attack, and for the local safeguarding, of the Allied military base and the Suez Canal. The Egyptian Government for their part agree -
  - (a) that the overall direction of the air defences should be vested in the Allied Middle East Command, operating through an Allied Air Defence Organisation;
  - (b) to permit the stationing in Egypt of such Allied air forces and air defence personnel as may be considered by the Supreme Allied Commander, Middle East, in agreement with the Egyptian military authorities to be necessary to supplement the Egyptian air forces available.



- (4) There will thus remain in Egypt of the British land forces, apart from such limited forces as may be agreed under (1) above, only such technical and administrative personnel as are required to maintain at a state of operational readiness British military equipment held in the Allied military base. These personnel will so far as possible be replaced by British civilian technicians and wherever practicable by Egyptian personnel trained in the handling of British stores and equipment. Of the British air and air defence forces only such will remain as are allocated by the Supreme Allied Commander, Middle East, to the Allied Air Defence Organisation mentioned above. These too will be replaced by Egyptian units and personnel progressively as sufficient of the latter can be trained and equipped to the requisite standard.
- (5) H.M. Government undertake, in common with such other participating members of the Middle East Command as are in a position to do so, to facilitate the training and equipment of the Egyptian armed forces to assume the responsibilities referred to above.
- (6) As soon as satisfactory arrangements have been concluded between the Allied Command and Egyptian military authorities regarding the organisation of the base and its defences, H.M. Government will agree to regard the 1936 Treaty as superseded and will be glad to enter into a new Treaty of Alliance with Egypt in keeping with the spirit which has animated the nations of the free world to join together in voluntary defensive co-operation.
- (7) In consideration of the foregoing and in recognition of the overriding need to consolidate the defences of the Middle East, the Egyptian Government agree to participate in the Allied Middle East Command on a footing of equality with the founder members.

- (8) The Egyptian Government agree that in the event of war or imminent menace of war Egypt will grant the forces of the Allied Middle East Command all the necessary facilities and assistance. Meanwhile she agrees to grant the customary personal and fiscal facilities to such Allied military personnel and war material as require to be located in Egypt in time of peace.
- (9) The Egyptian Government agree to the location of the Allied Supreme Commander's Headquarters on Egyptian territory.
- (10) The two Governments agree to pursue as a matter of urgency and in consultation with the other Powers concerned further discussions on military and political levels to give effect to the foregoing.

9. Your Excellency will note that in their main essentials the principles set out in paragraph 8 are in harmony with the Four-Power proposals. But you will note that they provide for a positive undertaking by H.M. Government to maintain no mobile fighting units of the British land forces in Egypt, except with the agreement of the Egyptian Government. They also contemplate that the base shall be manned in the main by civilians. These provisions should of course be treated as concessions which H.M. Government would be willing to make to secure agreement. You are aware of the difficulties and disadvantages involved in the withdrawal of British mobile land forces from Egypt. Much the same considerations apply to the replacement of military personnel by British civil technicians. It is true that this was already accepted in principle in H.M. Government's proposals of the 11th April last, but it is a measure which would present the greatest practical difficulties in execution, and you should endeavour at the outset to obtain consent to the retention of some military administrative personnel.

10. As regards the Sudan, H.M. Government understand that whatever else they may be willing to surrender of their ambitions in the Sudan, the Egyptian Government set great store by the acceptance by H.M. Government



of King Farouk's claim to the kingship of the Sudan as well as Egypt. Whatever the legal and historical arguments in support of such a claim, its unilateral recognition by H.M. Government would, however, not only be regarded by the Sudanese as a breach of H.M. Government's pledges but would be unacceptable to public opinion in this country, whatever the qualifying safeguards. You should therefore make clear from the outset that the first step must be consultation with the Sudanese. It may therefore be necessary to remind the Egyptian Government of the exact nature of H.M. Government's pledges to the Sudanese. These may be summarised briefly as follows: that there shall be no change in the status of the Sudan without prior consultation with the Sudanese; that the Sudanese shall have the unrestricted right freely to determine their final status and their ultimate relationship with the Co-dominion; that H.M. Government will make every effort to promote the establishment of self-government in the Sudan with an all-Sudanese Parliament and Council of Ministers within the course of the present year. Nevertheless, H.M. Government acknowledge that Egypt has wide and legitimate interests in the Sudan and they recognise that no settlement is likely to be reached with Egypt, which does not take their interests into account.

11. At present there is no purely Sudanese institution or body sufficiently representative of Sudanese opinion to enable consultation to take place on the reconciliation of Egyptian and Sudanese interests and more particularly on the question of King Farouk's title. Nor is it possible to see how such consultation can properly take place until there is a fully representative Parliament in the Sudan. You should therefore put the following proposals to the Egyptian Government -

- (a) that it must be for the all-Sudanese Parliament, which H.M. Government hope will meet after elections to be held this summer, to decide in the first instance upon the question of King Farouk's sovereignty;

- (b) that meanwhile the Egyptian Government should send a representative of high standing, in whom they have full confidence, to the Sudan in order to discuss this question with leading Sudanese and possibly the whole question of the future relations between Egypt and the Sudan.

This procedure will make plain to the Egyptians that only the Sudanese can decide whether the recognition of Egyptian sovereignty is in their own interests. While it is for the Egyptian Government to decide how they will convince the Sudanese that a link with Egypt is in their interests, it may be as well to make clear that in H.M. Government's view there is not the slightest chance of the Sudanese accepting King Farouk as their King unless the proposal is qualified by the firmest guarantee on the Egyptian part to respect the rights of the Sudanese to free self-determination and, if such be their wish, to ultimate secession from Egypt. It is also clear that this plan cannot be fulfilled unless pro-Egyptian elements in the Sudan co-operate in the all-Sudanese Parliament which is to be set up. If the course of discussions with the Egyptian Government make this desirable, you have authority at the appropriate time to suggest that a commission, upon which the United Kingdom, Egypt, and the Sudan would be represented, should be set up in the Sudan to observe the conduct of the elections to the Sudanese Parliament.

12. You may also add that H.M. Government would still be glad to co-operate in the establishment of an international authority to supervise the development of the Nile Waters in the joint interests of Egypt and the Sudan and to work for an international guarantee of the Nile Waters Agreement which formed part of H.M. Government's proposals of the 13th October. H.M. Government would also be willing to consider any other suggestions which the Egyptian Government may put forward to safeguard their interests in the fair exploitation of the waters of the Nile.



13. In conclusion it must be quite clear that sincerely as H.M. Government wish for agreement with Egypt on the future of the Sudan, they neither can nor will make a bargain with Egypt over the heads of the Sudanese, in return for strategic concessions in the Canal Zone. H.M. Government are not predisposed against any settlement of the relationship between Egypt and the Sudan provided that it represents the wishes of the majority of the Sudanese, but in their view it is for the Egyptians to secure the necessary support for their policies among the Sudanese people.

*Printed for the Cabinet. February 1952*

CONFIDENTIAL

Copy No. 66

C. (52) 44

18th February, 1952

CABINET

**STEEL PRICES IN THE UNITED KINGDOM**

NOTE BY THE SECRETARY OF THE CABINET

By direction of the Prime Minister I circulate the attached minute submitted to him by the Colonial Secretary on 14th February.

NORMAN BROOK.

*Cabinet Office, S.W. 1,  
18th February, 1952.*

PRIME MINISTER FROM COLONIAL SECRETARY

**STEEL PRICES IN THE UNITED KINGDOM**

As requested I held a further meeting on this question on 4th February, with the Chancellor of the Duchy of Lancaster, the Paymaster-General and the Minister of Supply. Sir Andrew Duncan was also present; and the Minister of Supply was accompanied by his Permanent Secretary, Sir Archibald Rowlands. As a result of this further discussion all the Ministers present were satisfied that a good case had been established for increasing steel prices in this country by £4 a ton, and that this increase could be defended against criticism. It was agreed that I should submit this conclusion for your approval.

On 6th February the Minister of Supply held a further meeting with the Iron and Steel Corporation, as a result of which the Corporation have now accepted these price increases and agreed that they may be announced as carrying their concurrence. This has been reported to you in a minute by the Minister of Supply, which has now been circulated to the Cabinet (C. (52) 30).

2. From the economic point of view, the Ministers who went into this on your behalf are all satisfied that these price increases are justified. And, from the political point of view, the situation has been greatly eased by the fact that the Corporation are now prepared to support the price increases. I would therefore recommend the Cabinet to approve these price increases when the matter comes before them this evening.

I should like, however, to draw your attention to the points made in the following paragraphs.

3. In discussing this question we have all been seriously handicapped by the lack of agreed figures for the profits earned by the industry during the past year. In my view it is most unsatisfactory that Ministers should be asked to settle the price of the product of a nationalised industry without having before them proper information about its past profits. Moreover, it is important for this purpose that Ministers should have a proper analysis of the profits made by the engineering sections, as well as the steel-making sections, of the industry. Much depends on



the price at which the steel is passed from one section of the industry to the other. Does the engineering side receive it at a price fixed by the Ministry of Supply, at cost, at cost *plus* overheads, or at the world price? If it were received at cost, this would represent a hidden subsidy to the engineering sections of the industry. The Cabinet should, I think, insist that on any similar occasion in the future agreed figures of profits shall be available so that the Government may have a firm basis for fixing prices.

4. Many of the other figures which entered into our calculations have also been subject to almost kaleidoscopic change. Take, for example, the cost of United States steel. In Washington you were told that this would be about £10 a ton above the British price. At our first meeting with Sir Andrew Duncan, he said that the differential would be between £30 and £35 a ton. At our next meeting this figure had become about £24 a ton (*viz.* between £25 and £26 a ton for finished steel, and between £22 and £24 a ton for semi-finished steel). I see that in the paper on steel export prices (C. (52) 27) it has now become £19-£20 a ton.

Again, as regards exports, Sir Andrew Duncan admitted at one of our meetings that British steel was in some cases being exported at a figure slightly below the world price with a view to preserving our long-term export markets. But I see no reference to this in the paper which the responsible Ministers have now circulated on export prices (C. (52) 27).

No doubt all these differences can be explained; but they certainly make it difficult for Ministers to find a firm basis for calculation.

5. Whatever the true price of the American steel, we are all agreed that no one can argue that you made a bad bargain in securing a larger allocation of it. Without it both our exports and our defence programmes would have been set back seriously, and it would have been worth paying an even higher price to avoid this. If you had not obtained this additional allocation the Iron and Steel Federation would have had to go into the market, in the United States and elsewhere, for whatever additional steel they could buy; and they would certainly have had to pay an even higher price. Moreover, if we obtain all the United States steel allocated to us and absorb its higher cost into our prices, Britain will still be selling steel at a lower price than any of her steel-producing competitors.

6. In any event, in computing the increased costs which are to be compensated by increased prices, no account has been taken of the additional 500,000 tons of United States steel allocated as a result of your visit to Washington. It will not, therefore, be possible for anyone to say that the increases in British steel prices is due to the higher cost of the steel which you obtained from the United States.

7. It was our object to ensure that some part of the increased costs were carried by the industry out of its profits. My colleagues and I agreed, in our discussions, that the increased import costs should be covered by equalising prices, but that some part of the increased cost of home production should be borne by the industry. The arrangement which the Minister of Supply has now made with the Corporation does not conform with this view. He has agreed that the whole of the increased cost of the additional 500,000 tons of United States steel shall be borne out of the profits of the industry; and it is estimated that, if the whole of the 500,000 tons is in fact imported, the industry will have to carry a cost of £14 million out of its profits. The whole of the increased costs of home production will presumably be passed on to the consumer.

This arrangement certainly has the advantage of enabling us to say that the whole of the increased cost of the additional steel which you obtained from the United States during your visit to Washington will be borne by the (nationalised) industry, and that no part of it will fall on steel consumers in this country. But it is the Iron and Steel Federation which has to see that we get as much as possible of our additional allocation, and it may be asked whether they have a sufficient incentive to put their back into this effort under an arrangement which means that every ton they buy over the original 500,000 tons will have the effect of diminishing their profits. Moreover, it was one of our objects to check, in a basic industry, the current tendency of producers to suppose that increased costs can be passed on automatically to the consumer in the form of increased prices. This object has not been secured by the arrangement made by the Minister of Supply.

Colonial Office,

14th February, 1952.

Printed for the Cabinet. February 1952

**CONFIDENTIAL**

Copy No. 65

C. (52) 45

18th February, 1952

## CABINET

### STEEL ECONOMY

#### NOTE BY THE MINISTER OF HOUSING AND LOCAL GOVERNMENT

At the Cabinet's meeting on 12th February I was asked to report what progress had been made in securing greater economy in the use of steel in building (C.C. (52) 16th Conclusions, Minute 7). This is being handled by the Sub-Committee on Steel Economy, which is a Sub-Committee of the Building Committee, of which I am Chairman. I attach herewith a report on their work. The Sub-Committee, which is under the Chairmanship of Mr. Seal, Deputy Secretary, Ministry of Works, has two permanent members nominated respectively by the Ministry of Supply and the Iron and Steel Federation. They are receiving the assistance of Dr. Lea, Head of the Building Research Station of the Department of Scientific and Industrial Research, who has recently been assisting the main Building Committee, and they co-opt such other experts as are necessary for the particular subject under study.

They say that, provided adequate supplies of reinforcing rod and high tensile steel wire are available, there is great scope for economy in steel by the encouragement of reinforced and pre-stressed concrete. Steps are already being taken by the Ministry of Supply to increase the supplies of these materials. The shortage of designers and builders capable of the high standard of work called for limits the use of these methods.

The allowable safety factors in structural steel were reduced during the war, and the saving thus permitted has been continued since. It is technically possible to secure further economies; but complicated methods of design are involved, and again we are limited by shortage of trained staff. It is also probable that many floors are built to carry greater weights than could possibly come upon them. What is needed is a steady pressure on those who design buildings to economise in steel, and the extended use of methods of computing stresses which take account of modern knowledge, and which the average designer can understand and safely apply. Some of these modern methods may involve a relaxation in the building by-laws: where this is shown to be desirable we shall not hesitate to recommend it.

All these matters are under consideration by the Committee, and they hope to make a further report soon.

H. M.

*Ministry of Housing and Local Government, S.W. 1,  
14th February, 1952.*

### SUB-COMMITTEE ON STEEL ECONOMY

#### REPORT BY THE CHAIRMAN

##### 1. Membership and Terms of Reference

Mr. Stanes of the Ministry of Supply and Mr. Kavanagh of the Iron and Steel Federation have been appointed as members. We have no other permanent members, the policy being to co-opt others as necessary for the purpose in hand. The Terms of Reference we take to be "To review all possible measures of economy in the use of iron and steel of types employed in the building and allied industries."



## 2. Method of Work

We have held two meetings and reviewed the problem generally. In very general terms we intend to proceed by—

- (a) examining existing specifications, Codes of Practice, &c., to ensure that full advantage is taken of the properties of modern steel,
- (b) considering whether by suitable publicity or otherwise, design may not be influenced to secure greater economies,
- (c) considering what action should be taken to divert steel supplies to products and forms (*e.g.*, cold-rolled sections) which use steel most economically,
- (d) publicity to secure the greater use of those products and methods known to be economical.

For the purpose of examining the work being put in hand by the Nationalised Industries, the Fighting Services and the Ministry of Education, we think it best to join forces with the main Sub-Committee on Economy in Building Materials. As you will see from the report put forward by that Committee, approaches are being made to the Service Ministries and the Ministries of Fuel and Power and Education. I am therefore associating the Steel Economy Sub-Committee with those approaches.

3. At our last meeting we considered the use of steel and cast iron for housing both for structural purposes and for fitments such as cookers, stoves, &c. The amount of structural steel in a house in England and Wales is very small, not more on the average than a hundredweight to a hundredweight and a half, and the Ministry of Housing have taken effective steps to restrict the use of steel in flats, where it nevertheless remains essential for floors. Usage in Scotland appeared to be considerably higher; this is being looked into. There is also probably some scope for saving of ferrous metal by a greater substitution of steel for cast iron in fitments and components. We are pursuing this matter.

I shall report further as the work progresses.

*Lambeth Bridge House, S.E. 1,  
6th February, 1952.*

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COPY No. .75..

C(52)46

17th February, 1952.

CABINET

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EGYPT AND THE SUDAN

Memorandum by the Secretary of State  
for Foreign Affairs

I attach for the information of my colleagues the record of a conversation which I had with Sir Cecil Campbell, President of the British Chamber of Commerce in Cairo, on the 15th February. This is relevant to my paper C(52)43, which is being taken under Item 2 of our Agenda on the 18th February.

A.E.



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A.E.

Sir Cecil Campbell came to see me this afternoon. He is President of the British Chamber of Commerce in Cairo, and has spent his whole life in Egypt. He said he wished to impress upon me how totally different was the present situation to anything he had ever known in Egypt. He would frankly confess himself as frightened by the new atmosphere. Everybody in the Egyptian Government was acting under fear. We must have no doubts as to the weakness of Ali Maher's position.

2. In reply to a question from me, he said that in his view the Egyptian Army was not reliable. The senior officers had been smeared by the failure of the Palestine campaign and the corruption and shortage of equipment which had been revealed. The younger officers were not anti-British, and it was there that the chief hope lay. They were disgruntled with the King and with the Commander-in-Chief, but they had a professional pride and they wanted to build up an Egyptian Army. Anything we could do in that respect would be most valuable. The decent youth in Egypt did not know where to turn for leadership.

3. I observed that the Army had proved loyal to the King in the hour of crisis when he had called for its intervention. Sir Cecil Campbell would not accept this. He said that Nohas Pasha had, after a long struggle with the King, been persuaded to declare martial law. He was by no means convinced that the Army would have responded in the same way to a direct call from King Farouk.

4. Sir C. Campbell said that there was no improvement whatever in the attitude of Egyptians to Europeans since the recent riots. That was an illusion; so was the idea that the Wafd had been discredited by what had happened. If elections in Egypt were held under conditions that were even remotely free, the Wafd would romp home to-day. The trouble was that there was no political force to-day in Egypt except the Wafd.

5. In a further reference to the Army, Sir C. Campbell said that Foad Sadek, who had done extremely well in Palestine and was a strict disciplinarian and friendly to us, was the best hope for the future. On his return from the Palestine campaign, Foad Sadek had been very out-spoken and said that the campaign had been a scandal and the equipment embezzled. He himself was an honest man, but on account of his frank criticism King Farouk unfortunately did not like him.

6. Sir C. Campbell said that he had seen the Egyptian Ambassador last night. Like all Egyptians, Amir Pasha was terrified of the outlook and had said that he gave the Government three weeks and the monarchy five weeks. While Sir C. Campbell did not himself share this view, he did think that the situation was desperately critical. He said that King Farouk was unpredictable and also unpopular. There had been no enthusiasm whatever over the birth of the son. The

/Palace



Palace had not even dared to risk illuminations, and the crowd merely joined in obscene jests during the public holiday.

7. I said that all this was a gloomy picture not inconsistent in fundamentals with what H.M. Ambassador in Cairo had reported but painted in darker colours. What would Sir Cecil Campbell have us do in these conditions? He said that some concession must be given to Ali Maher if he was to survive at all. It seemed to him that a certain reduction in the number of our troops in the Canal Zone, which he presumed would not be unwelcome to us, could be a token of confidence that would help in the opening of negotiations. If we were to couple this with a declaration that we were determined to equip and strengthen the Egyptian Army, this would give encouragement to the better type of officer and might just enable the situation to be held. He was not himself convinced - though he realised this was not a matter for his judgment - that we would be wise to try to negotiate a Treaty to replace that of 1936. He doubted whether the present Government had the necessary authority to put it through if one were concluded. It might be that they would not want a Treaty, but would prefer some declaration of where we stood and what our intentions were.

8. I said that this might be even more difficult for us, since our eventual purpose was to bring an international arrangement into being for the Canal Zone. Nor did I see how we could meet the Egyptians in respect of the Sudan in such a declaration. Sir Cecil Campbell, like everybody else who speaks of Egyptian opinion, was emphatic that some account must be taken of Egyptian aspirations in relation to the Sudan. He argued that we had never challenged the authority of the Egyptian crown and that the Governor-General had always been nominated by the Egyptian King. He also said that in 1946 he understood that the Law Officers had given an opinion that sovereignty over the Sudan still resided in the Egyptian crown. I replied that we had never challenged the position of Egypt under the Condominium, and that it was Egypt herself who had torn up that agreement and the Treaty of 1936. I should be quite ready to go back to the state of affairs under the Condominium, but I could not admit even the symbolic suzerainty of the Egyptian crown over the Sudan without riots and troubles in that country. I was not prepared to transfer the state of affairs that existed in Egypt into the Sudan. Sir C. Campbell expressed some doubts as to whether Sudanese opinion really felt so strongly in the matter. I told him of evidence given by American officials of high repute who had recently been in Khartoum. This appeared to impress him, but he repeated that the position was one of the utmost urgency in Egypt and of the gravest danger. It was quite possible for what had occurred a few weeks ago in Cairo to be repeated on a larger scale throughout Egyptian cities. As far as he could see, the only hope was to build up Ali Maher and give the Army confidence. He hoped some understanding might be arrived at about the Sudan; otherwise there might be no alternative between the total abandonment of our position in Egypt and the withdrawal of the civilian population on the one hand, and the total occupation of the country on the other.

*Printed for the Cabinet. February 1952*

**CONFIDENTIAL**

**Copy No. 70**

**C. (52) 47**

*18th February, 1952*

# **CABINET**

## **THE SAAR**

### **NOTE BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS**

I circulate for the information of my colleagues a despatch from Sir O. Harvey (Her Majesty's Ambassador at Paris) on France's policy towards the Saar. I draw their particular attention to paragraph 7 of the despatch.

**A. E.**

*Foreign Office, S.W. 1,  
18th February, 1952.*

### **DESPATCH OF 12TH FEBRUARY, 1952, FROM HER MAJESTY'S AMBASSADOR IN PARIS**

In my despatch No. 505 of 3rd November last on French foreign policy I mentioned the Saar as an example of France's failure to draw the logical consequences of her German policy. Recent events in connection with that territory have fully borne this out.

2. The Saar question had been for some time quiescent, so much so that last October we and the Americans tried to persuade the French to profit by this lull in order to reach a quiet settlement on the subject with the Germans. M. Schuman did not take this hint, and the lull continued. If no settlement could be achieved this was the next best thing. The Germans were the first to break it with Dr. Adenauer's announcement early in January that he intended to bring the question up at the Council of Europe. This caused comparatively little stir here. The French Government seemed to be damping down press comment, and it was therefore with some consternation that the United States Embassy learned a few days later of French intentions to announce a change in the status of their representative in the Saar. Mr. Acheson had already told M. Schuman last November that he hoped no such step would be taken while the contractual agreements of the European Defence Committee were still under negotiation, and the United States Embassy here made every attempt to prevent an announcement of the change at this juncture. I was also instructed to intervene in the same sense on 26th January, but by that time the harm had been done. On the preceding day the Council of Ministers had decided that M. Grandval was to be known in future as head of the French mission in the Saar, with the personal rank of Ambassador. Unfortunately the Quai d'Orsay gave this out in such a way as to suggest that a diplomatic mission was being set up, with M. Grandval as Ambassador accredited to the Saar.

3. The German reaction to this announcement was violent, and indeed perhaps out of proportion to the change which had been made. French counter-reactions to this raised the temperature of Franco-German relations just when the debates on the European Army required that it should be lowered. But M. Schuman, when His Majesty's Chargé d'Affaires saw him on your instructions on 31st January, seemed unwilling to take any action to undo the harm which had been done. Nor was he much more forthcoming during the talks which you had with him during your visit to Paris on 1st and 2nd February, and he refused to allow any reference



to the Saar to be made in the communiqué published at the end of that visit. Nevertheless he reaffirmed France's position about the provisional nature of the Saar régime, in terms sufficiently clear for you to be able to send reassuring messages to Dr. Adenauer.

4. The Germans at first showed signs of refusing to be consoled, but then advanced for the first time in concrete form certain ideas which had been in the air for some weeks past about the possible "Europeanisation" of the Saar. When these ideas were put to the French Government their acceptance of them was hedged about with such conditions (continued economic attachment of the Saar to France, and Saar autonomy) as seemed likely to do more harm than good with German opinion, and my United States colleague and I tried to persuade M. Schuman to withdraw these conditions. He did in the end agree to water them down slightly by admitting that they were not necessary pre-conditions for the opening of a negotiation. Indeed, M. Schuman insisted to me that the whole exercise was on an unofficial and exploratory basis, that there was no question of these being ultimatums, and that His Majesty's Government and the American Government were in no way committed by the exchange of views which were taking place. The offer was finally made to the Germans in this form shortly before the Bundestag debate about the European Defence Community. There the matter rests for the moment.

5. This whole episode shows how liable this relatively minor question is to poison the whole area of Franco-German relations, and what a danger it constitutes to the programme of European unification. Neither side comes well out of it, each of them exploiting each other's unreasonableness and pressing on the sore spots. Of German motives it is not for me to speak. French motives have been variously interpreted. M. Schuman's explanations of his Government's actions struck my United States colleague and myself as embarrassed and sometimes contradictory, e.g., when he said almost in the same breath that M. Grandval's immediate nomination was essential for budgetary reasons and that it would not have been honest for him to have held it up until after the debate in the Bundestag. None of the reasons which M. Schuman advanced seem really adequate to explain his action in taking, at this particularly critical time, a step which was bound to lead to difficulties with Germany over the much more important problem of the European Army. An explanation widely offered here is that the action was due to certain elements in the Quai d'Orsay which are strongly anti-German in feeling and far from enthusiastic about the Schuman and Pleven Plans. M. Monnet undoubtedly believes this, and M. Raymond Aron hinted at it in an article in the *Figaro* when he spoke of the timing of M. Grandval's appointment as "badly—or perhaps too well—chosen." It is certainly true that there are many people in the Quai whose attitude to the European Army is best described by these lines:—

"Thou shalt not kill, but needst not strive  
Officiously to keep alive."

They would not perhaps have deliberately sabotaged the Pleven plan, but they might well have let M. Grandval's promotion go forward in the knowledge that its announcement at this particular juncture was bound to damage the European Army negotiations. It is true that the appointment was approved by the Council of Ministers, but here again the misleading form in which it was first announced by the Quai seems slightly sinister.

6. In France's German policy there is always a conflict for influence over M. Schuman between M. Monnet on the one hand and the officials of the Quai d'Orsay on the other, and it now looks as if the latter are in the ascendant. M. Pleven's departure from the Government has deprived M. Monnet of much of his influence, and the long letter about German affairs which M. Schuman addressed to Mr. Acheson on 30th January is clearly inspired by ideas very different from those which prevailed when M. Pleven and M. Monnet between them were exerting a strong influence over M. Schuman.

7. For the moment the situation seems calmer, and it may be that when the debate here and the Lisbon meeting is over it would be possible to resume in a less heated atmosphere an exploration of the proposal to Europeanise the Saar. This seems the most hopeful suggestion which has so far emerged for dealing with this troublesome question. But it would in my opinion be too soon to press on with it now; for the next few weeks, the less anybody says about the Saar the better.

CONFIDENTIAL

C.(52) 48

COPY NO. 6218TH FEBRUARY, 1952CABINETATOMIC ENERGY SECURITYMemorandum by the Home Secretary

On 29th December, 1951, the Cabinet (C.C.(51) 22nd Conclusions, Minute 2) invited a Committee consisting of the Colonial Secretary, the Minister of Housing and Local Government, the President of the Board of Trade, with myself in the Chair, to examine a submission about security arrangements made to the Prime Minister by the Permanent Secretary to the Treasury; and to exchange views on it with the Prime Minister on his arrival in the United States.

2. The aspect of this submission which we were concerned with was a new security procedure proposed for detecting possible Communists in very secret posts in the Civil Service.
3. Until recently reliance was placed solely on "vetting" by the Security Service. Vetting means that the Security Service checks the man's name against its records, making outside enquiries if the record need to be elucidated or brought up-to-date. If the man is not in the Security Service records, he is regarded as safe for employment.\*
4. We think that this procedure should be supplemented for a limited range of posts involving access to vital secrets, including in particular access to classified atomic energy information. These posts number about 14,000, including 11,000 in the Atomic Energy Division of the Ministry of Supply.
5. The new procedure is of a positive and open character. The man himself is to be required to declare whether he has any Communist associations, and other persons who know him are to be asked whether he has such associations.
6. The enquiries are to be based on a questionnaire which staff (including candidates for appointment) will have to fill in. It will include nationality, previous employment and other antecedents. Character referees are to be given, and the questionnaire will include a question specifically designed to force the man to admit any Communist association.
7. In the light of the replies the Department will consider what further enquiries it should make before deciding whether the man is an entirely suitable person to be employed on exceptionally secret work.

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\* The details of this procedure have never been published though the part played by the Security Service has been mentioned in Parliament.



8. We thought that the new procedure should be introduced and recommended accordingly to the Prime Minister, then in America. On his instructions, we arranged accordingly. The announcement was generally well received, and staff interests in the Civil Service as a whole do not object in principle. But they have raised some points which, with our comments, are set out in the Annex to this memorandum.

9. We ask the Cabinet -

- (1) To endorse what we have already done;
- (2) to agree that the points raised by the staff should be dealt with as we propose in the Annex.

D.M.F.

Home Office, S.W.1,

18TH FEBRUARY, 1952.

The points raised by the staff on the procedure, and our recommendations, are:-

- (i) Can a Trades Union official make representations, including appearing personally before the Minister, about the reliability of a man whose case has been to the three advisers? <sup>x</sup>

We should not agree to personal appeals being made to Ministers about these individuals, and we understand that the point will not be pressed. Representations may be made in writing to the Minister.

- (ii) Can we delete from the questionnaire the item asking for particulars of brothers and sisters?

We can agree. The information will not be used by the Security Service, and the Foreign Office say that the Americans will not object.

- (iii) Can we alter the wording of the key question

16 (iii) from

"Do you belong, or have you ever belonged, to any body associated with or generally supposed to be connected with or in sympathy with the Communist movement?"

to

"Do you belong, or have you ever belonged, to any body associated with or in sympathy with the Communist movement?"

N.B. In answering this question you should take into account not merely your own belief but also the sort of opinion which is generally held of the body in question, even if you do not endorse that opinion."

This modification is designed to meet the staff's objection that the first version imposes an unreasonable requirement on the man who cannot be expected to know what bodies are generally to be connected with the Communist Party.

We can agree. Again this will not bother the Americans, and the Security Service say that the number of liars we shall catch will not be affected.

- (iv) Can we make the staff admit convictions for serious offences only? (The questionnaire as now drafted asks for all offences.)

We should not agree. Nobody can define a serious offence, and minor offences might be useful background.

- (v) Can we agree to reveal sources of information where these are not Security Service?

The object of the staff in making this request is to discourage informers. We cannot agree. Character referees must be able to give information confidentially, and we cannot afford to discourage volunteering of information that might lead to the discovery of unreliaables in very secret posts.

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<sup>x</sup> The three advisers are two retired civil servants and one retired Trades Union official; Their task is to advise the Minister whether or no a prima facie charge of unreliability is justified. The Minister does not have to accept their advice.



- (vi) Will the Cabinet issue a directive compelling Departments to accept on reposting, even at great inconvenience, staff removed from secret work as unreliable.

We do not recommend compliance. Posting seems inappropriate for a Cabinet directive, and can be dealt with only by co-operation between the Treasury and the Departments concerned.

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Printed for the Cabinet. February 1952

SECRET

Copy No. 76

C. (52) 49

19th February, 1952

**CABINET**

**THE REPORT OF THE TEMPORARY COUNCIL COMMITTEE OF THE  
NORTH ATLANTIC COUNCIL**

**MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS**

The purpose of this paper is to acquaint my colleagues with recent developments in the Temporary Council Committee (T.C.C.) of the North Atlantic Treaty Organisation and to inform them of the action on this report which I propose to take at Lisbon. I attach—

- (1) A brief prepared by the Mutual Aid Committee on the T.C.C. Report (Annex A).
- (2) The draft text of a resolution prepared by the T.C.C. for submission to the North Atlantic Council at Lisbon (Annex B).

There may still be changes, particularly in the military clauses (paragraphs 2 to 11) of this resolution, but they are unlikely to be substantial.

2. For the reasons explained below, I would propose to accept this resolution on behalf of Her Majesty's Government, subject to certain important reservations explained in paragraph 8 of Annex A which I would make in a statement for the record at the Council meeting.

*The Present Position*

3. I will deal briefly with the present position, which is fully explained in paragraphs 1 to 9 of Annex A. The plan of action set out in the T.C.C. report of 18th December was endorsed by His Majesty's Government. It was felt that in an election year there was no prospect of securing a larger American contribution. An increase was indeed not proposed by the T.C.C. This plan of action is now subject to important qualifications, largely because France is unable to provide the forces required of her and partly because other countries, notably Canada and Belgium, are unwilling to make the financial contributions demanded of them by the T.C.C. This is made clear in a supplement to their report which the T.C.C. will present to the North Atlantic Council at Lisbon and which summarises the comments of the N.A.T.O. countries on the report. The N.A.T.O. Powers are therefore faced with a new situation.

*The Alternatives*

4. There are three courses open to the N.A.T.O. Powers, namely:—

- (i) To adhere to the T.C.C. programme and refuse to accept excuses for non-performance of stipulated defence efforts.
- (ii) To ask the T.C.C. to recast their programme on the basis of the contributions which particular countries are actually prepared to make.
- (iii) To accept the T.C.C. programme subject to reservations to cover the difficulties in the way of its execution.



5. Course (i) does not offer any prospects of success. Belgium and Canada are unlikely to withdraw their refusal to increase their efforts. The inability of France and Italy to fulfil their shares is caused by economic difficulties which the T.C.C. recommended should be largely solved by United States aid. But this aid has not yet been forthcoming to an adequate extent.

6. Course (ii) would be militarily and politically unacceptable because—

(a) the revised programme would be no answer to the military threat (which is constant) and would focus attention on the military risk, without suggesting the means to overcome it.

(b) The T.C.C. report, although it is a secret document, has received considerable and favourable publicity. It is generally regarded by the public and by Congress as having solved the problem of combining adequate defence with economic possibility. To admit now that the whole basis of the report had been invalidated would be open to serious political objection, especially in its effect on Congress and future appropriations.

7. Since course (i) cannot be successfully followed at Lisbon and course (ii) would be militarily and politically unacceptable, only course (iii) remains open. The problem was submitted to the Chancellor of the Exchequer and myself at the end of January on the basis of the information then available. After consulting the Prime Minister, we decided that T.C.C. should be guided to report on the lines of course (iii), and with our authority a United Kingdom paper to this effect was transmitted to the T.C.C. on 29th January. The T.C.C. agreed and the Resolution at Annex B is the result.

#### *The Resolution*

8. In its present form the resolution advocates the adoption of the force targets and standards worked out by the T.C.C.'s own screening and costing staff and recommends that these "should be adopted as firm goals for 1952, as provisional goals for 1953 and for 1954 and beyond as goals to be used for planning purposes to guide the early actions required to make possible the achievement of these targets." It recognises, however, that "many financial and other problems remain to be solved before the goals can be fully met." It will probably state (the phrase is still under discussion in the Military Committee at Lisbon and is to be reconsidered by the T.C.C.) that the T.C.C. programme "provides militarily acceptable progress towards the effective achievement of an adequate deterrent force" and it recommends the adoption of the programme. The military risk will remain, but this may be offset by the development of new weapons. In case the programme cannot be fulfilled, the resolution calls upon the Military Committee to work out a system of priorities so that those forces most urgently required can be formed and equipped first while the creation of other units can be delayed. The whole situation must in any case be reviewed again in the Autumn, and annually thereafter. The resolution also enumerates many of the conclusions of the T.C.C. report and makes detailed recommendations about the action which should be taken to make them effective.

#### *The Risks*

9. The difficulties in the way of carrying out the T.C.C. programme, which although enumerated in the resolution may not be fully understood by Congress, will almost certainly result in a considerable slowing down of the N.A.T.O. rearmament programme. There is therefore a risk that when this slowing down becomes apparent, criticism will be levelled against the European N.A.T.O. countries in Congress. But this is a risk which is inevitable whether or not the report is accepted.

#### *The Advantages*

10. The resolution as it stands will provide a basis on which the technique of reconciling defence needs with the capabilities can be developed after Lisbon both inside and outside N.A.T.O.; this development may in time induce Congress to consider more sympathetically the need for a larger United States contribution to N.A.T.O. defence, not only directly but also through the United States foreign aid programme. Moreover, provided that the position of Her Majesty's Government is made clear to the Council at Lisbon, the Resolution does not commit the United Kingdom to a defence programme or any course of action which might later prove unacceptable.

### Conclusion

11. Given the basis on which the T.C.C. report was written, and the arguments for adhering to it (see paragraph 3 above) the resolution prepared by the T.C.C. is the best that can be hoped for at Lisbon. I would accordingly propose to confirm the decision taken on 29th January to endorse the T.C.C. report and therefore to accept the resolution subject to the comments and reservations in paragraph 8 of the brief at Annex A which I propose to make in a statement for the record at the North Atlantic Council.

A. E.

Foreign Office, S.W. 1,  
19th February, 1952.

## ANNEX A

### REPORT OF THE TEMPORARY COUNCIL COMMITTEE (BRIEF FOR LISBON MEETING OF THE NORTH ATLANTIC COUNCIL)

The North Atlantic Council at Ottawa recognised that a gap existed in N.A.T.O. between stated military needs and the economic capacity available for defence. The T.C.C. operation was an attempt to reconcile military needs with "politico-economic capabilities." The gap has existed for some time and in the absence of any attempt to bridge it, N.A.T.O. planning inevitably lacked realism. The fact that the reconciliation has been attempted and is proposed as an annual event in future is, therefore, an important step forward.

2. The United Kingdom participated in this operation with two objectives. First, we knew in advance that the only source from which N.A.T.O. could get a significant addition to defence resources was the United States. We hoped that the T.C.C. Report might provide a basis on which Congress would agree to increase her economic and military aid to Europe. Secondly, we wanted the operation to result in a build-up of N.A.T.O. defence forces which made the most efficient use of the available men and material and improved their readiness for combat.

3. We hoped to get our first objective by the technique of testing each country on the politico-economic limitations to their effort. Thus, the declared limits (accepted by the T.C.C.) on the United Kingdom effort were shortage of steel and our balance of payments deficit. The other N.A.T.O. countries, with less valid limitations, were all, with the exception of Portugal, asked to increase their defence efforts. The United States defence effort was, on the other hand, *not* limited by any economic factors. But, while the test of economic limitation was applied to all other partners, the United States did not submit to it and maintained that her effort was already so big that no increase was politically possible.

4. Our second objective was to improve the efficiency and readiness of the available forces. This result should have followed from the proposals of the T.C.C.'s Screening and Costing Staff, proposals which General Eisenhower has strongly endorsed. It is true that the planned build-up of forces recommended by the S.C.S. will not meet the full military requirements by 1954. But it provides a sound basis for progress by providing a plan of forces targets and standards to be adopted as firm goals for 1952, as provisional goals for 1953, and as goals to be used for planning purposes for 1954 and beyond to guide the early action that is required to make possible the achievement of these targets.

5. Unfortunately the validity of this plan has now been threatened by the indication (not actually included in the French comments to the T.C.C.) that the French forces which will be ready in 1952 will have to be substantially reduced unless France gets increased external aid and by the inability or refusal of many of the other N.A.T.O. countries (notably Belgium and Italy) to agree to the increased expenditures recommended by the T.C.C.



6. We must therefore face the fact that not only has the T.C.C. operation failed as a lever for increasing the United States external effort in 1952, but also it is now doubtful whether we have got our military objective of balanced forces in readiness in 1952. On the other hand, the T.C.C. Report has received publicity from General Eisenhower and others as a "miraculous" success. Politically, it would be impossible to declare it a failure and while it has not produced the immediate results that we hoped for, it does provide a basis for continuing work which may produce more favourable results in the future than were possible this year, an election year in the United States. The Report does mark a significant advance in United States participation in the N.A.T.O. partnership. They took the lead in organising and guiding the discussions. They are as fully committed as any other N.A.T.O. country to the plans for building up the forces to meet the N.A.T.O. requirements. Although they barred increased appropriations in 1952, Mr. Harriman has indicated informally that the possibility is not excluded of an increased United States effort in 1953 and after.

7. The previous Government undertook the £4,700 million defence programme on the assumption that arrangements would be made in N.A.T.O. for the equitable sharing of the defence burden. In fact, they relied on obtaining external aid if it was established that our defence programme involved us in more than our fair share of the total N.A.T.O. defence effort. The concept of burden sharing has been generally accepted in N.A.T.O. and the T.C.C. have reaffirmed the concept in paragraph 4 of their Supplementary Report. But, for the reasons given above, the T.C.C. operation has failed to put the concept into practical operation. In fact, the United States are distributing the aid so far voted by Congress not on any burden-sharing principle, but on their own judgment of the needs of each country. The United Kingdom share of this aid is a fraction of our uncovered dollar deficit.

8. The United Kingdom must therefore face the fact that burden sharing has so far failed as a practical method of safeguarding our economy against the impact of defence. Nevertheless, this failure does not necessarily mean that the burden-sharing concept is dead since there is some prospect of it being applied more effectively in the future by developing the technique of testing countries on their politico-economic limits. It would in any case be difficult politically to admit that we had abandoned hope of an equitable sharing of defence burdens. We should, therefore, not only continue to emphasise the importance of this principle, but also press for its practical application.

9. The T.C.C. have completed their work in Paris by providing the North Atlantic Council with the attached draft Resolution under which the Council, while recognising that the achievement of the plan is subject to some important qualifications, in particular those relating to finance, accept and endorse the T.C.C. Report, and direct the N.A.T.O. Governments and Agencies to take the further action both in military and economic fields required to put it into effect. The draft Resolution will serve as a useful basis for future work in N.A.T.O.

10. United Kingdom Ministers are therefore recommended to endorse the Report and the terms of the draft Resolution. It is also recommended that our endorsement of the Resolution should be supported by the following comments designed to make the United Kingdom position clear, both as regards the N.A.T.O. defence effort as a whole and as regards our share in that effort:—

- (i) We welcome the T.C.C. Report as a most important step towards the formulation of an effective N.A.T.O. defence plan and we accept the build-up of forces recommended by the T.C.C. as a sound basis for planning.
- (ii) We are ourselves determined to carry out the T.C.C. recommendations to the best of our ability but the implementation of our defence programme is dependent on economic circumstances, the most important of which is now our balance of payments difficulties. The recent retarding of our defence effort will not materially affect our military contribution to N.A.T.O. in 1952.
- (iii) We welcome the recognition in paragraph 111 of the main Report of "the fundamental point, namely that the European defence programmes . . . cannot be carried out unless sufficient dollars are somehow found." We undertook our £4,700 million defence programme on the assumption that there would be an equitable sharing of defence burdens in N.A.T.O.—an assumption that still stands. The present position is

that unless we are able to cover our gold and dollar deficit by the middle of this year, the United Kingdom defence programme will be not only retarded but imperilled by the risk to our whole economy.

- (iv) We also welcome the recommendation in paragraph 15 (b) of the Resolution that an appropriate balance should be achieved between the components of the mutual aid made available. We need flexibility in the division between end-item and economic aid and in the administration of each component. The present rigidity in the administration of economic aid is already seriously hampering us in our efforts to obtain quickly the dollars which have been allotted to us.
- (v) We attach special importance to the recommendation in paragraph 13 (c) of the Resolution that vigorous action should be taken to increase production of scarce raw materials, especially coal, steel and non-ferrous metals, to achieve greater economy in their use and to channel them to the most essential uses. Even with the promised steel imports from the United States, we shall continue to need increased supplies of steel from the Continent to maintain our defence effort. We recognise the importance of British coal to the economies of the Continental European countries and, as far as practicable, we are taking action without delay to put into operation the findings of the T.C.C. on coal, for example by increasing exports to Europe.
- (vi) It is impossible for us to make any further contribution to infrastructure as suggested in paragraph 10 of the Resolution if this involves any commitment on us to provide foreign exchange.
- (vii) We welcome the proposed review of the defence effort of N.A.T.O. next autumn and annually thereafter as advocated in paragraph 17 (b) of the Resolution.
- (viii) We also urge that, as proposed in paragraph 16 of the Resolution, an early study should be made of the burden of maintaining the proposed forces during the later stages of the build-up and when the build-up is complete.

These comments, which do not constitute any amendment to the Resolution, are amplified in the Appendix to this brief.

#### APPENDIX

### SUMMARY OF UNITED KINGDOM VIEWS ON THE DRAFT RESOLUTION

1. *General.*—We must acknowledge that the reconciliation between a militarily acceptable plan and the capabilities of member countries is far from complete. But the North Atlantic Council Resolution at Ottawa of 19th September did not expect the T.C.C. to complete the job, but only to analyse the issues involved in it. Given the time available and the fact that this is the first attempt, remarkable progress has been made. The T.C.C. have established a technique on which the work can be continued and further progress made.

2. *Military.*—(a) The military paragraphs of the draft Resolution (paragraphs 2-11) are now being considered by the Military Committee at Lisbon and will probably be amended after discussion with the T.C.C. before the Council meets. As a result of these discussions, there may be supplementary comments, which will have to be put to United Kingdom Ministers at Lisbon.

(b) *S.C.S. targets.*—These are covered by paragraph 2 of the draft Resolution and are acceptable to the United Kingdom subject to the provisos in (c) below. They are prefaced by the qualification at the beginning of the paragraph that "Many financial and other problems remain to be solved before the goals can be fully met," mainly in order to meet the French reservation.

(c) *United Kingdom military contribution.*—We can accept in general the force contributions suggested for the United Kingdom by the Screening and Costing Staff, subject to the detailed provisos set out in the United Kingdom comments on the Report of the Screening and Costing Staff (TCC-CC/2 Addendum No. 1 of 25th January). (These provisos include among others the point—to which much importance is attached by the War Office—that the United Kingdom cannot provide

lin 1952 or 1953



six divisions and two brigade groups in Europe by M + 30 as they have been asked. The United Kingdom can only provide four divisions and two brigade groups by M + 30; the remaining two divisions will not be available for operations until M + 60—M + 90 owing to the necessity for post-mobilisation training.) The retarding of our defence effort as a whole will not materially affect our military contribution to N.A.T.O. in 1952-53.

(d) *Value of the United Kingdom defence effort.*—Our maximum effort for the three years up to mid-1954 was declared to the T.C.C. as £5,078 million. The United Kingdom comments on the main body of the T.C.C. Report (TCC-CC/2 Addendum No. 2 of 2nd February) gave warning that our defence programme would have to be retarded. This has been reinforced by the statement by the Prime Minister in Parliament on 5th February that it was inevitable that the programme should be spread over a somewhat longer period than was originally planned. It is not yet possible to assess the effect of retarding the programme on the figure of £5,078 million. (If any question is raised on the effect of the 1952-53 Service estimates on our previously declared effort it could be said that the revised total for the year 1952-53 may be £150 million less than the figure of £1,731 million given to the T.C.C. in October last year.)

3. *Infrastructure.*—United Kingdom Ministers will certainly have to refer to this subject which is bound to attract considerable attention and discussion at Lisbon. The difficulty is that (b) and (c) of paragraph 10 of the draft resolution, while not actually committing any individual country to contribute, might well be read as committing us to some contribution either as an addition to our military burdens or in substitution of some item of military expenditure which might be given up. It may well be that neither of these possibilities is open to us. Our balance of payments difficulties make it impossible to add to our liabilities for financing expenditure on the Continent. Therefore, the limit of what we can do in the way of a contribution to the third slice of infrastructure is our contribution to the cost of such infrastructure as may be located in the United Kingdom viz., the Canberra airfields; and this may well be regarded by the United States and others as inadequate. This important point is being made the subject of a separate submission to Ministers.

4. *Economic conditions.*—These are dealt with in paragraphs 12 to 15 of the draft Resolution. The principal items for comment are:—

(a) *Economic expansion.*—We agree with the emphasis placed on the need for general economic expansion as the basis on which N.A.T.O. rearmament can be carried out. But this should be coupled with a warning against the danger of thinking that the progress of the last few years can be automatically continued—particularly in view of raw materials shortages and the competing claims of defence on industries producing investment goods. Under the heading of raw materials the United Kingdom attaches special importance to 13 (c) of the draft Resolution requiring vigorous action to be taken to increase production of scarce raw materials, especially coal, steel and non-ferrous metals, and through adequate conservation and allocation measures, achieve greater economy in use and channel them to the most essential uses.

As regards coal, we recognise the importance of British coal to the economies of the Continental European countries. We are doing our best to put the T.C.C. findings into operation and we have in fact agreed to increase our exports in 1952 by 2 million tons, although this will increase the difficulties of consumers in the United Kingdom. A separate brief is being prepared.

On steel, we want to establish our claim to increased supplies of imported steel not only from the United States but from the Continent to maintain our industrial output at a level which can enable a full defence effort to be kept up. This part of the draft Resolution will give the required authority for us to participate in action now proceeding in other organs of N.A.T.O. with the object of channelling supplies of Continental steel to the most essential uses and away from inessential uses in the United States and elsewhere. A separate brief is being prepared on the United Kingdom approach to the N.A.T.O. steel discussions.

(b) *Internal financial stability.*—We should endorse the general finding (embodied in paragraph 13 (a) of the draft Resolution) that the successful implementation of defence plans depends on the achievement of a sufficient degree of internal stability by all the N.A.T.O. countries. In the United Kingdom the importance of this is fully realised. The Chancellor stated in Parliament on 29th January that all our efforts will be brought to nought unless we are successful in dealing with

the problem of inflation. He went on to say that the interest of the balance of payments, which are paramount to this country, make it essential to introduce the appropriate Budget at the earliest possible date (4th March) and thus complete the third stage in the operation which he began last November.

(c) *Dollar balance of payments (see paragraph 15 of the draft Resolution).*—We attach great importance to the recognition by the Committee, in paragraph 111 of the main Report of the "fundamental point, namely, that the European defence programmes proposed in this Report cannot be carried out unless sufficient dollars are somehow found, both over the period as a whole and as and where they are needed year by year."

The salient point is that the maintenance of our defence effort depends upon our gold and dollar deficit being covered by the middle of 1952. So far the measures taken by the United Kingdom and the Commonwealth Sterling Area have not succeeded in closing this gap and the external support in prospect from the United States is insufficient and unlikely to be received in time. If we fail to close the gap, the United Kingdom defence programme will be not only retarded but will stop with the collapse of our whole economy.

We should also welcome the reference by the Committee to the need for flexibility to be maintained in the administration of funds provided by the United States under the Mutual Security Act. The present rigidity in the administration of these funds is seriously hampering our efforts to obtain quickly the economic aid which has been promised to us. Flexibility, especially in the division of funds between economic and end item assistance, is essential to ensure the best use of available funds. The point is developed in more detail in paragraph 16 of the United Kingdom comments on the main body of the T.C.C. Report (TCC-CC/2, Addendum 2).

The United Kingdom balance of payments position is dealt with more fully in a separate brief.

(d) *Economic burden of maintaining the proposed forces during the later stages of the build-up and when the build-up is complete.*—Paragraph 16 of the draft Resolution directs the appropriate N.A.T.O. Agencies to study this problem. It is made more serious by the decision to extend the completion of the programme beyond 1954, so that after 1954 Europe must face the combined burden of build-up and maintenance. It is important that this study should be carried out quickly before Europe finds itself committed to expenditure on building up larger forces than it can maintain. (The background to this part of the Resolution is the indication given by United States representatives that after 1954 external aid must stop and Europe must maintain her defence forces out of her own resources.)

5. *Technique and procedure.*—The N.A.T.O. organisation required to carry forward the work initiated by the T.C.C. is the subject of a separate brief. But in the context of the T.C.C. Report it would be useful for United Kingdom Ministers to stress the value of the new technique devised and operated by the T.C.C. on the economic side, viz., the assumption that each country should make a defence effort up to the limit of its capabilities and should be tested on the factors that are said to limit its capacity. The T.C.C. operation has so far failed to devise a scheme for the practical application of the equitable burden-sharing principle. Nevertheless we welcome the reaffirmation in paragraph 4 of their Supplementary report of "the principle underlying N.A.T.O. that there should be an equitable sharing of the joint defence burden." We should emphasise that our defence effort was undertaken and commitments incurred on the expectation that defence burdens would be equitably shared. What is urgently needed is not only the reaffirmation of the principle, but the will to put the principle into practical effect.

6. *Annual review.*—Paragraph 17 (b) of the draft Resolution proposes that there should be a comprehensive annual review of the requirements for building and maintaining adequate strength on a realistic foundation of politico-economic capabilities, and that the first review should be completed in the autumn of 1952. We welcome the proposal for an annual review of military programmes since we regard this as a useful means of ensuring that all the N.A.T.O. countries are being pressed to undertake their maximum effort.



## ANNEX B

DRAFT RESOLUTION FOR NORTH ATLANTIC COUNCIL ON  
TEMPORARY COUNCIL COMMITTEE REPORT PREPARED BY THE  
TEMPORARY COUNCIL COMMITTEE

## PROVISIONAL TEXT

(SUBJECT TO FINAL CONSIDERATION BY THE T.C.C. IN LISBON ON 17TH FEBRUARY)

Whereas, the North Atlantic Treaty Organisation has, from its inception, been developing programmes for the creation of adequate defensive strength essential to the maintenance of peace and freedom, and has been, in accordance with Article 3, implementing these programmes through national efforts to build up forces, and through mutual aid including the extension of assistance freely undertaken to each other in the form of economic resources and military equipment; and

Whereas, the North Atlantic Council at its meeting in Ottawa on 19th September, 1951, authorised the establishment of a committee to prepare an analysis of the issues involved in reconciling on the one hand the requirements of external security, in particular in fulfilling a militarily acceptable N.A.T.O. plan for the defence of Western Europe, with, on the other hand, the realistic politico-economic capabilities of member countries; and

Whereas, in accordance with this resolution the Temporary Council Committee has completed such an analysis and prepared a report thereon dated 18th December, 1951, as well as a supplementary report dated 8th February, 1952, to which are annexed the comments of the North Atlantic Treaty Governments,

Therefore, the North Atlantic Council—

1. Agrees that it is necessary to promote by every means the development of the North Atlantic Treaty Organisation and its Military Commands as operationally effective bodies; and

Invites Governments and directs N.A.T.O. Agencies and Commands, in consultation with national Governments and within their respective authority, to take as a matter of urgency all steps necessary to ensure the continuous development of the operational effectiveness of the Organisation, and to report progress to the Council at regular intervals.

2. While recognising that many financial and other problems remain to be solved before the goals can be fully met,

Resolves that the force targets recommended by the T.C.C. be adopted as firm goals for 1952, as provisional goals for 1953, and for 1954 as goals to be used for planning purposes to guide the early actions required to make possible the achievement of these targets.

3. Resolves that the achievement of the forces recommended for 1952 will provide an increased deterrent to aggression; that the plan of action laid down in the T.C.C. Report provides a militarily acceptable method for the effective achievement of an adequate deterrent force in Western Europe based on a sound economic structure in the North Atlantic Community.

4. Resolves that the general method of N.A.T.O. programming proposed in the T.C.C. report be adopted: namely, the determination of the maximum effective forces which can be achieved in the short-term, and the definition of the steps which must now be initiated to achieve a progressive build-up to militarily acceptable force levels.

5.—(a) Resolves that the force targets recommended by the T.C.C. represent a build-up which would greatly facilitate the eventual achievement of the force requirements made available to the T.C.C., these requirements being subject to future revision.

(b) Notes the assumption of a substantial German participation in the build-up through forces in a European defence community as well as contributions by Germany in other ways.

6.—(a) Recognises that, on the basis of estimates of requirements made available to the T.C.C., there remains a military risk after the force build-up recommended by the T.C.C. has been achieved;

(b) Notes that the T.C.C. Report and other N.A.T.O. studies to date have not taken into account in detail the effects of certain new weapons and techniques; and

Recommends that as it becomes possible, these effects should be more definitely taken into account in determining the risks, the force requirements, and the organisation of N.A.T.O. forces.

7.—(a) Resolves that the T.C.C. recommendations with regard to the readiness and effectiveness of forces and economy in use of resources are basically sound, that each country should do its utmost to implement them, co-ordinating implementation with the appropriate Supreme Allied Commander with respect to forces assigned or earmarked to his command;

(b) Adopts the S.C.S. standards of readiness of forces as a means of measuring progress for calendar year 1952;

(c) Directs that the Military Committee undertake further studies to fix the standards for subsequent years in order to ensure the readiness of the greatest possible number of units from resources available and improve continuously the state of readiness of military forces.

8.—(a) Approves the revised directive of the Standing Group (Annex A)\* and revised terms of reference of SACEUR (Annex B);\*

(b) Invites nations to take all possible action to enable SACEUR to fulfil the responsibility and authority placed upon him under his revised terms of reference;

(c) Stresses the importance of the closest possible liaison in the area of his expanded responsibilities between SACEUR and the appropriate national authorities; and

(d) Directs the Military Committee to continue to review arrangements for mutual support between different N.A.T.O. commands within N.A.T.O. areas and between them and national military commands with a view to maximum economy of force and military effectiveness.

9.—(a) Directs the Military Committee, in consultation with major N.A.T.O. commands, to devise and put into operation a system designed to ensure that the highest priority is given to the most important units and activities (including the provision of infrastructure) and that less important units and activities receive lower priority, this system to be based on the accepted concept of the provision of collectively balanced N.A.T.O. forces; and

Invites Governments to take fully into account in the build-up of their forces the guidance so provided; and

(b) Directs the Military Committee to establish immediately a system of priorities for assignment of major items of equipment, which should be related to priorities in the development of other elements of the military build-up in N.A.T.O. countries and in Germany, such a system of priorities to be based on the principle of priorities as between commands being established by the Military Committee and priorities within major commands by the Commander concerned, and

Invites Governments to take these priorities fully into account in the provision of equipment;

(c) Directs the Military Committee and the major N.A.T.O. Commanders to prepare the plans and groundwork for an operative logistics and supply system in support of N.A.T.O. defence.

10.—(a) Resolves that the financing and construction of increments of common infrastructure in phase with the build-up of military units are essential to the effectiveness of N.A.T.O. forces;

(b) Requests all North Atlantic Treaty Governments, in budgeting for their respective defence expenditures, to accord a sufficiently high priority to the essential common infrastructure programme for 1952 to ensure that the country contributions to this programme will provide the funds needed for its completion even should this necessitate adjustment in other items of defence expenditures;

\* This clause to be finalised when the annexes are made available after approval by the Military Committee.



(c) Requests North Atlantic Treaty Governments to take whatever action may be necessary, including, where possible, interim provision of resources by host Governments and interim contributions by others, to ensure that sufficient resources are made available to permit the immediate initiation of work on this programme;

(d) Resolves that due account shall be taken of any interim contributions provided for the financing of this programme prior to an agreement on a multi-lateral division of the cost of the programme; and that, when agreement is reached, any Government which has made expenditure in excess of its agreed share shall be reimbursed for its net surplus expenditure.

11.—(a) Directs the appropriate N.A.T.O. agencies to undertake a survey of detailed, screened equipment needs, scheduled as to needed times of delivery and in orders of priority, thereby permitting, before the next annual review, as provided for in paragraph 17 (b) (ii) below, an accurate assessment of the N.A.T. equipment position, and effective collaboration between the N.A.T. military and production staffs in recommending measures to improve it; and accordingly

(b) Invites Governments, through the provision of appropriate current information and in other ways, to assist the North Atlantic Organisation in the expeditious completion of such a survey and its maintenance thereafter.

12.—(a) Resolves that the realisation of adequate defensive strength and its continued support by the Governments and peoples of the North Atlantic Treaty countries require sound economic and social foundations which can be developed only by a satisfactory rate of general economic expansion; and

(b) Recommends that Governments undertake to the fullest extent possible to adopt those measures necessary to ensure the economic strength and stability of the North Atlantic Treaty Area, giving special attention to the economic and financial aspects of Parts I through V of the T.C.C. report which have been recommended for the acceptance of Governments, as well as the O.E.E.C. declaration on the expansion of output endorsed by the North Atlantic Council at Ottawa; and to this end

(c) Notes—

- (i) that there exist within the Community actual and potential resources adequate to provide an expanding economic base, both for adequate defence and for the general strengthening of the Community;
- (ii) that the efficient utilisation of these resources requires actions both by national Governments alone and by Governments acting together;
- (iii) that actions in the economic field by any member country may affect, in some way, the economic strength and stability of others. And therefore

13. Recommends—

(a) that particular attention be given to budgetary problems which exert a powerful influence on the possibility of carrying out the defence effort;

(b) that each country should adopt appropriate fiscal, financial and monetary policies in order to avoid creating a total demand which outstrips available supplies of key resources, or puts additional pressure on the balance of payments, or prejudices progress towards social equity;

(c) that vigorous action be taken to increase production of scarce raw materials, especially of coal, steel and certain non-ferrous metals, and through adequate conservation, and where needed allocation measures, to achieve greater economy in their use; and to channel them to the most essential uses;

(d) that the above considerations should be taken into account in the annual reviews provided for in paragraph 17 (b) (ii) below.

14. Agrees with the analysis of the man-power problem as stated in the T.C.C. Report;

Notes the importance of emigration, particularly for Italy, but also for other countries; and in line with the foregoing and in order to overcome man-power shortages in defence and defence-supporting industries

Recommends that North Atlantic Treaty Governments review their immigration policies and regulations where necessary with the aim of facilitating labour mobility in and between N.A.T.O. countries; and that to the same end North Atlantic Treaty Governments consider what further practical steps they can take to make more effective their co-operation in other international bodies in this field of which they are members, such as O.E.E.C., the Provisional Committee set up by the Brussels Conference and I.L.O.; and that the North Atlantic Council keep this matter under review.

15.—(a) Notes that the T.C.C. Report has recognised as particularly critical for European countries the satisfactory solution of the dollar balance of payments problem, and as contributions towards such a solution

**Recommends—**

- (i) the adoption of measures to facilitate and increase European dollar earnings, including increased exports to dollar markets, of vigorous mutual measures to facilitate United States military expenditures in Europe, and also of all possible measures to assure more rapid progress on the infrastructure programme, thereby increasing dollar expenditures in Europe;
- (ii) the achievement of an appropriate balance between the components of the mutual aid made available, with a view to achieving maximum defensive strength on a sound economic foundation;
- (iii) the rapid development of off-shore procurement programmes (the primary purpose of which, however, is the most economic use of resources and the expansion of military production in Europe), including action by all N.A.T.O. countries to enlarge, facilitate and accelerate off-shore procurement;

(b) Notes that a satisfactory solution of the intra-European payments problem is also of critical importance to European countries;

Notes the views to this end contained in the T.C.C. Report and

Recommends the adoption by the interested Governments of effective measures to provide during the defence build-up a satisfactory functioning of the European Payments Union.

16. Directs the appropriate N.A.T.O. agencies to study, and to report to the North Atlantic Council not later than next fall, together with the review foreseen in paragraph 17 (b) (ii), the longer-term economic implications of the defence build-up, and in this connection to examine the annual cost to individual N.A.T.O. countries of currently approved N.A.T.O. defence plans, projecting these costs into the future as far as these plans permit, and taking into account both the cost of achieving the forces goals and the cost of maintaining the forces contemplated.

17. Agrees that the effective execution of the Plan of Action recommended by the T.C.C. depends upon a reorganisation and strengthening of N.A.T.O. machinery in accordance with the general principles laid down in Part V of the T.C.C. Report:

Notes that this question is dealt with in a separate Resolution of the Council, and

(a) Resolves that the appropriate N.A.T.O. agencies should continuously review the requirements for building adequate defensive strength and reconcile military needs with the politico-economic capabilities of member countries, and, in the carrying out of this resolution, should have regard to relevant past decisions of the North Atlantic Council;

(b) Resolves that, in addition, provision should be made for follow-up action by N.A.T.O. agencies and governments pursuant to decisions of the Council—

- (i) to maintain up-to-date information on the progress of the forces build-up, and
- (ii) to prepare necessary material for comprehensive annual reviews of the requirements for building and maintaining adequate defensive strength on a realistic foundation of politico-economic capabilities, the first such review to be completed in the fall of 1952.

18.—(a) Notes that country comments indicate the existence of military, economic and political problems of varying degrees of severity; that urgent and sustained action on these problems is of vital importance to the achievement of the full build-up proposed; and accordingly

(b) Urges that governments and N.A.T.O. agencies and commands undertake without delay necessary actions in accordance with the principles embodied in this Resolution to promote the achievement of the goals for 1952 and the contained build-up in 1953 and beyond, and that the member governments, as well as N.A.T.O. agencies and commands, provide the Council with reports of actions taken to this end.



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20th February, 1952

CABINET

**SUPPLY OF ARMS TO INDIA AND PAKISTAN**

**NOTE BY THE PRIME MINISTER AND MINISTER OF DEFENCE**

I circulate for consideration by the Cabinet a minute of mine about the supply of arms to India and Pakistan and the memorandum prepared in reply to it.

W. S. C.

10, Downing Street, S.W. 1,  
20th February, 1952.

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PRIME MINISTER TO PERMANENT SECRETARY, MINISTRY OF DEFENCE, AND CHIEF STAFF OFFICER OF THE MINISTER OF DEFENCE: MINUTE OF 26TH DECEMBER, 1951

It must be remembered that these two countries may go to War with one another and that is the only object for which they seek arms. Unfair favour was shown to India in the arrangements made at the time of partition and the balance might be slightly redressed in favour of Pakistan. On the other hand we place ourselves in a very questionable position by arming both sides with no other object than long-term advantages of keeping up the United Kingdom manufacturing potentials. For instance, forty-two bombers for Pakistan raises the query "who are they going to bomb?" Obviously the cities of India. This involves us in serious responsibility. We are like an arms merchant supplying both sides in a possibly impending struggle. There is of course this difference, that we do not get paid anything. All that happens is that the amounts are marked off the so-called "sterling balances." It would seem that these issues should be brought before the Cabinet after we are again united on our return from the United States.

(Intld.) W. S. C.

26th December, 1951.

## SUPPLY OF EQUIPMENT TO INDIA AND PAKISTAN

1. India and Pakistan still look to the United Kingdom for their requirements of defence equipment, but in recent years we have had very little to offer and representations for increased supplies have frequently been made at high level. On 25th August, 1951, the late Mr. Liaquat Ali Khan wrote to Mr. Attlee for help in meeting Pakistan's most urgent requirements. No reply has yet been sent to his letter. The whole problem of supplies to both India and Pakistan has been examined and the results of this examination are set out below.

### *Policy hitherto followed*

2. The demands of India and Pakistan for defence equipment have been given a lower priority than those of the old Commonwealth countries, N.A.T.O. countries and other foreign countries with which we have firm defence agreements (e.g., Jordan and Iraq). They have, however, usually been given preference over the demands of other foreign countries. Special attention has been paid to maintaining broad parity of treatment between India and Pakistan, bearing in mind that India has a greater capacity to produce for herself and that she inherited all the ordnance factories existing at the time of transfer of power.

3. This policy is based on the fact that we have no defence agreement with either India or Pakistan: the effect of the policy has been that neither country is now receiving any appreciable quantities of United Kingdom military equipment, and that any which can be released is surplus and mostly obsolescent.

### *Issues already made or promised*

4. The more important issues in recent years have been:—

#### *Pakistan:—*

- 3 destroyers (2 in 1949 and 1 in 1951).
- 14 Attacker jet aircraft.
- 24 Sea Fury aircraft.
- 10 serviceable } obsolescent Tempest aircraft being issued by Far
- 6 unserviceable } East Air Force.

#### *India:—*

- 3 destroyers (in 1949).
- 39 Vampire aircraft.
- 20 Vampire airframes and engines for assembly in India.
- 12 unserviceable Tempest aircraft.

The following have been promised:—

#### *Pakistan:—*

- 22 Attacker jet aircraft (in process of delivery).
- 18 Sea Fury aircraft (deliveries set back to meet Admiralty requirements).
- 13 serviceable obsolescent Tempest aircraft.

#### *India:—*

- 3 frigates (recently offered on loan).
- In addition 10 Seafire aircraft (the naval version of the Spitfire) have been offered to India. This should not, however, be considered as a firm promise, as the Admiralty regard them as reserve aircraft. They should only be issued to India when they are no longer required by the Admiralty.

### *Further requirements and prospects of supply*

5. The unsatisfied requirements of both countries are very considerable. They include certain items mentioned above as promised but not yet delivered.

6. The prospects of meeting the additional requirements are very poor. We may be able to let Pakistan have £1½ million worth of Army equipment by March 1953, and India about £½ million worth, but supplies will be confined to a few items and will be unbalanced. The only important demands we could meet are Lincoln bombers for Pakistan (in 1954–55, by which time they will be surplus to United



Kingdom requirements) and Spitfire photographic reconnaissance aircraft for India. It is proposed that five Spitfires should be supplied to India and that a limited number of Lincolns should be promised to Pakistan. It is considered that Pakistan does not really need as many as 42 Lincolns and that the precise number should be left over for discussion nearer the time of issue.

#### *Future Policy*

7. Under the policy followed hitherto there is little prospect of our being able to supply either India or Pakistan with much specialised military equipment during the next two years. After that we may be able to provide rather more, mainly of obsolescent types becoming surplus as new types are produced.

8. There are of course objections to a policy of limiting supplies in this way, on the grounds that it may well result in driving both countries to other sources. It is known that both India and Pakistan are already negotiating with the United States, European countries and Canada. This may mean the loss of a valuable long-term export market which also helps to maintain United Kingdom war potential. On the other hand, it would be difficult to justify any relaxation, as supplies from the United Kingdom at present could not be increased except at the expense of our own requirements or those of old Commonwealth or N.A.T.O. countries. The Arms Working Party could, however, continue to examine demands on their merits and recommend to Ministers the acceptance of commitments which do not interfere significantly with the requirements of the United Kingdom or of other priority countries, provided that such interference can be regarded as more than offset by the advantages to be gained.

9. It is of the utmost importance from both the political and strategical points of view that we should retain the goodwill of both countries. The loss of their goodwill might lead to interference with existing air transit rights in both countries and the prevention of Gurkha recruitment by India.

11. It is our long-term objective to build up India and Pakistan as bulwarks against Communism and to obtain their assistance in the defence of South-East Asia and the Persian Gulf. Pakistan have already given some indication of having the intention to co-operate with us in war, though possibly not at the outset. If we lose their goodwill we shall certainly not achieve any of these long-term objectives.

12. There is admittedly a risk that any arms we supply may be used by India and Pakistan in fighting each other, but the quantities we are likely to be able to supply in the immediate future are unlikely to be large enough to affect the issue materially. A complete stoppage of supplies would tend to operate to the advantage of India as against Pakistan to an even greater extent than the present policy. Both countries have legitimate reasons for requiring equipment for their own internal and frontier defence commitments as well as to protect themselves against aggression from outside the Indian Continent. Their armed forces were equipped with British types of equipment at the time of partition and they naturally look to us to continue to supply them at least with what they need for maintenance, replacement and training. A refusal to continue supplies would not prevent them from obtaining at any rate some of their requirements from elsewhere. This would almost certainly be from outside the sterling area and would thus impose a further strain on the foreign currency reserves of the sterling area as a whole.

#### *Recommendations*

13. In view of the considerations set out above it is recommended that the Cabinet should—

- (a) endorse the policy which has been followed hitherto and is set out in paragraph 2, subject to reconsideration if and when either India or Pakistan is prepared to enter into a defence agreement with the United Kingdom;
- (b) approve the issue of a limited number of Lincoln bombers to Pakistan (in 1954-55), subject to the precise number being settled nearer the time of issue, and 5 Spitfire Photographic Reconnaissance aircraft to India (paragraph 6);
- (c) agree that a reply should be sent to the Pakistan Prime Minister informing him of the items which can be supplied and explaining why we cannot supply any more at present.